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THE MAGAZINE OF WALL STREET

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

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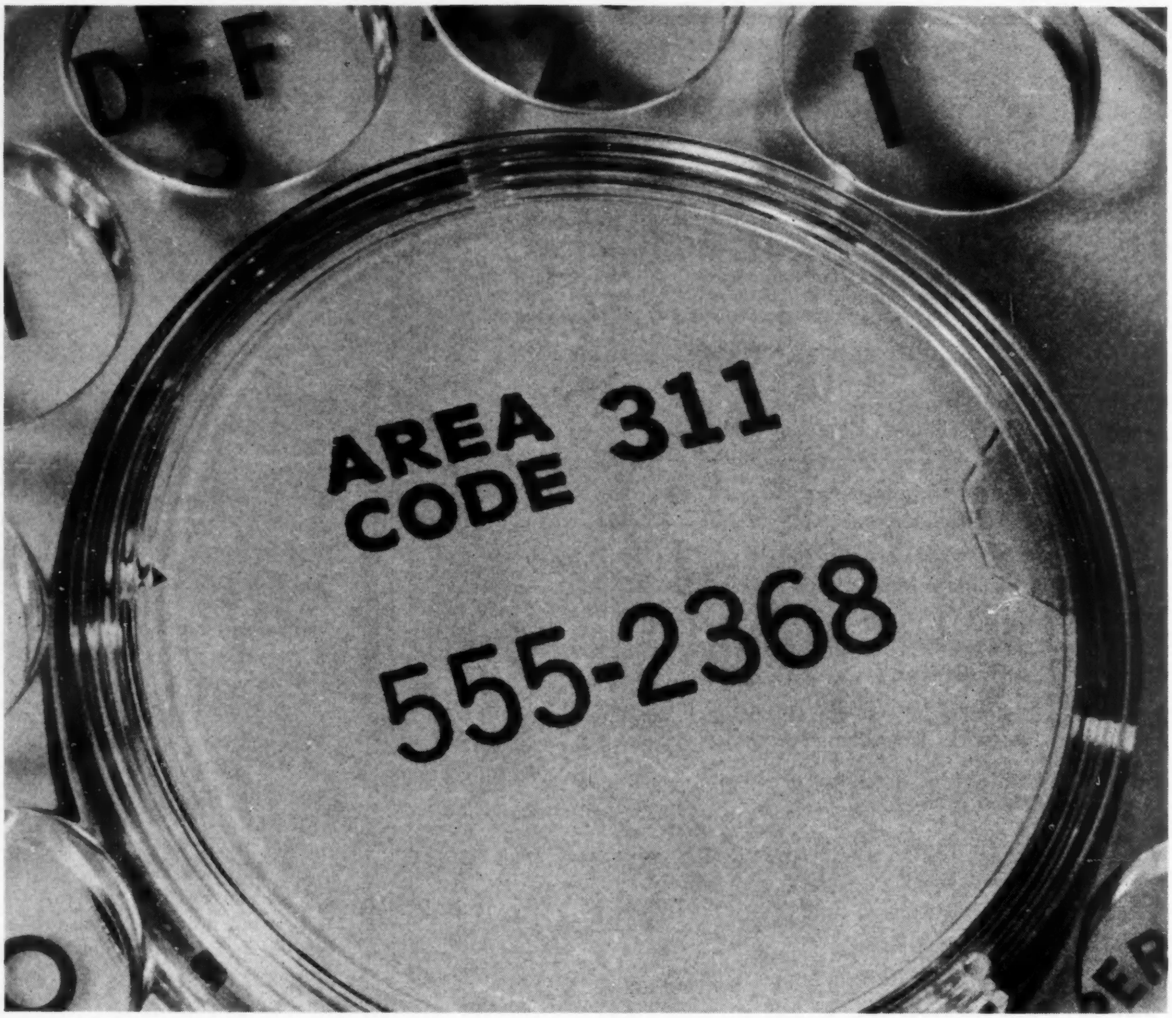

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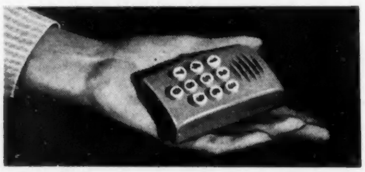
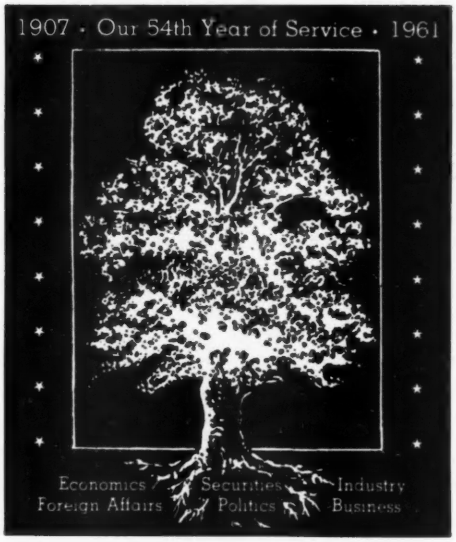


All-Number Calling may permit you to use simple, tiny number-buttons on portable phones of the future.

BELL TELEPHONE SYSTEM

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

INTRIGUE IN THE MIDDLE EAST—AND THEN SOME . . . By Charles Benedict.

WHEN Nasser fell out with Khrushchev over the infiltration of Communist agents in his country (despite the Soviet Union's financing of the Aswan Dam), one knew at once that Khrushchev was going to hit back at Nasser where it hurt the most.

We did not have to wait long to see where Khrushchev would attack, and that he chose Nasser's weak spot, his ambition to be the leader of the Arab League, was typical of Mr. K's technique and strategy.

Moreover, he must have approached this challenge with great glee, for in this particular case he could kill two birds with one stone—that of setting up a new leader capable of challenging Nasser—and, at the same time, be able to deliver a knock-out blow to Britain and her assets and source of oil in that part of the world, with the resulting shock to confidence in the pound sterling, already under pressure.

To accomplish this purpose, Khrushchev sought the cooperation of Kassim of Iraq, beholden to him for huge supplies of arms and funds, who had for six months past been negotiating with Britain regarding the nationalization of the Iraq Petroleum Company, so that Khrushchev's plans fitted in perfectly with Kassim's own schemes.

Thus, Iraq's demand on Kuwait was designed first of all to create consternation in London. But the British, to everyone's surprise, jumped the gun, and without any fuss or feathers immediately stepped in to protect their interests, which are vast, since Kuwait is a pillar of the British economy due to the huge sums invested in that country, and the fact that it is the source of 40% of the oil used in Britain. But, if this wasn't enough, the sheik of Kuwait, who receives 50% of the profits on oil production in his country, invests a great portion of his income in Britain, which lends considerable support to the pound sterlng.

The speed with which Britain entered the field to protect herself (which, by the way, set us the realistic kind of example we could do well to follow), stymied the immediate success that Kassim was counting on.

The fact that it also brought Nasser into the picture, who immediately called upon his confrere, Saudi Arabia, to go to the assistance of Kuwait, and permit-

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

ted the British free access for their battle ships through the Suez Canal, will undoubtedly cause Kassim to use the situation at the moment merely as a bargaining point in connection with his plans for the Iraq Petroleum Company.

The first sign that serious trouble was brewing in the shiekdom came when a secondary issue of 1,670,000 shares of Gulf Oil who, together with British Petroleum, controls the Kuwait oil production, was placed on the market.

But the speed with which the British acted in the situation saved the day. And if Mr. Khrushchev was counting on the policy of muddling through to weaken Britain seriously and force her to a point where London would be willing to negotiate on the Berlin situation, he failed of his purpose, for, instead, the British saw through his trick and got their backs up, promptly announcing a policy of firmness with regard to Berlin.

But the end is not yet, for many conflicting interests are involved, so that the situation is still in a fluid state.

It is well to remember that Russia has not given up the design for creating a buffer state in the Middle East in order to protect her important industrial center back of Azerbaijan. While bulwarked to the north, east and west, she has not consolidated her position to the south in the Middle East, which during World War II was the main avenue of supply coming up through the Dardanelles that today flanks her industrial heart.

She has been taking one step after another to control the entire land mass, which would make the Soviet Union the most powerful country in the world, for she would then dominate the air space connecting the continents,, where the modern air routes practically parallel the old caravan trails.

The Soviet Union has already made considerable headway in an area containing 13 million Arabs, in what is now the "soft underbelly" of her defense, and is using her position in Azerbaijan to encourage the Kurds to harass and destroy the present government of Iran and to upset the balance in Turkey.

As for Nasser, the Soviet-Iraqui challenge could shatter his aspirations to become the dominant figure in the Middle East, for the take-over of Kuwait would blast his hopes of winning over to his side the Shiekdom with its great wealth, which he had counted on to finance his dreams.

In the coming issue of THE MAGAZINE OF WALL STREET there will be an important story of what is taking place in this area and its effect on the international oils, and what would happen regarding oil production if Kassim should succeed in nationalizing Iraq Petroleum. It will take up the huge quantities of oil that can be made available—oil that has been held up owing to our import restrictions—and the companies to which the benefits of this situation will gravitate. Don't miss this fascinating story.

ARE WE AGAIN HEADED FOR PRICE CONTROLS? . . . By William Bryant.

NOTE—Mr. Bryant's editorial is of special interest at this time, suggesting as it does the possibility of a return to the kind of controls that worked so badly during the Roosevelt Administration. This type of thinking seems to indicate the new Administration wants to try its own wings and is unwilling to learn from history. What a mistake this would be.

—EDITOR

THOSE observers of the Washington scene who have the responsibility of scenting future trends are beginning to predict the possibility that a campaign for governmental price controls is not far off. President Kennedy's massive Federal spending programs are accompanied by warnings of the need for restraint by labor and management in raising wages and prices. Based on past performances, the major emphasis will be on prices rather than on wages.

The same Anti-Trust Section of the Justice Department which sought and obtained convictions of several major electric equipment producers for conspiring to keep prices up is now requesting those producers, on pain of prosecution, to agree not to set prices which are "unreasonably low". This disposition to object to both too high and too low prices suggests that perhaps the Justice Department now fears that small business enterprises might be hurt

by direct and unrestrained competition from the more efficient large companies. **Could it be that the only right prices are those decreed by the government itself?**

The anomalous position of the Justice Department today in the matter of prices is a direct reflection of the confusion on this subject which has long existed in the minds of the so-called "liberal" politicians. The result has been a hodge-podge of contradictory laws, administrative rulings and anti-trust lawsuits which have created so many uncertainties for businessmen and have so distorted the normal operation of the law of supply and demand that the nation's economy has been harmed rather than helped.

By mixing politics with economics it has been possible to produce some rather weird laws. On the one hand some of these statutes outlaw monopolistic price-fixing, while other laws simultaneously give price-fixing legal sanction. Apparently, much depends on who is doing the price-fixing and under what circumstances. For example, it is safe for farmers to restrict output and for the Federal Government to force them to collaborate for this purpose, but illegal and morally reprehensible when manufacturers make the slightest approach of the same character. Labor unions also have considerable latitude in monopolistic price-fixing activities. Even small businesses are encouraged to fix prices by fair trade legislation, which actually punishes price cutters.

Experience of the 1930's

Back in the 1930's the National Recovery Act, one of the legislative cornerstones of the New Deal, provided for the fixing of "fair" prices by industry code committees. This law, however, was found to be unconstitutional in the so-called "sick chicken" decision of the U.S. Supreme Court. It is noteworthy that following that decision business began to recover sharply from the slump it had been in while the National Recovery Act was in effect. **This suggests that the price control features of the law actually had been retarding rather than helping business recovery.**

O.P.A. and Fair Trade Laws

Other attempts at price-fixing or price control by the government have been through the Office of Price Administration during the war, by the Department of Agriculture with its commodity and price control laws and by several states via so-called fair trade laws. New York's Feld-Crawford Act, which makes it illegal to sell specific branded goods at less than established prices, is an example of the latter type of state price control law. All of these laws have had the common objective of protecting special political pressure groups from the free workings of the law of demand and supply—exactly what the Anti-Trust Division of the Department of Justice opposes as illegal when practiced by big business.

Price Controls and Big Government

Price controls constitute the favorite device of advocates of large scale governmental spending to offset the inevitable inflationary consequences of thier policies and practices. The principal difficulty with this device is that, when it is used, black markets reflect the operation of the law of demand and supply which cannot be casually repealed. In the black markets, which soon become the only real markets, the effects of inflation are often magnified. Once price control laws are enacted they become almost impossible to remove because of political considerations. For example, some of the rent control laws placed on the statute books over 16 years ago during the war are still with us despite the enormous amount of new building which has taken place since 1945. Even the price controls on meat and on many other items which were in effect during the war were not lifted until the shortages, which the price controls caused, created such an intolerable situation that the voters forced the legislators to terminate the O.P.A.

Large Low-Cost Companies

Price problems in the United States are magnified by the fact that in many industries a relatively small number of large and highly efficient companies tend to dominate the various fields. Unless some restraint is exercised, these low cost producers might soon drive many of the smaller companies out of business. For example, it is generally understood that few other electric companies could produce generators and turbines at as low costs as General Electric, Westinghouse and Allis-Chalmers. If cut-throat competition were resorted to, these three companies might be able to take practically all of the business away from the smaller and less efficient companies in the field. Similarly, if General Motors and Ford got into a price war they might well be able to bankrupt the other automobile producers in a short time. Thus, the government's theories about rugged price competition among a large number of small producers fail to meet the test of reality or practicality.

As the Department of Justice initiates anti-trust proceedings in industry after industry seeking to fractionalize or atomize business and force cut-throat competition, it may well be creating more problems than it is solving. Corporate profit margins are already dangerously low. To force them lower would be to run the risk of increasing unemployment and diminishing the rate of the nation's economic expansion, both of which are contrary to stated objectives of the Kennedy Administration.

Conclusion

The introduction of governmental price controls into a nation's economy invariably leads to serious curtailment of economic freedom. Even when introduced on a selective basis, the resulting distortion in profit margins between controlled and uncontrolled sectors forces the government gradually to extend its areas of control. This constitutes an important first step toward a totally managed enonomy. Price controls are predestined to failure if for no other reason than because no individual or group of individuals has sufficient wisdom to set the many millions of prices which are involved in the overall market. END

Market Now In Summer Test

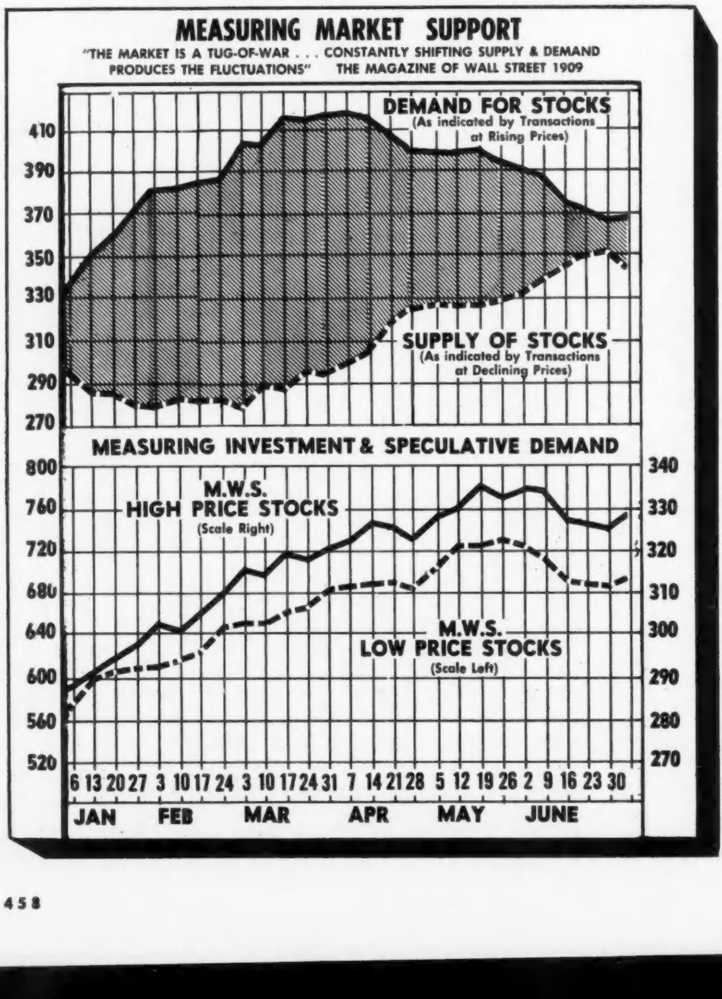
Most stocks have met with moderately improved support in recent trading, but the averages remain in restricted ranges. It is conjectural whether a seasonal rally might amount to much over the near term, in view of present uncertainties. A conservative, selective policy remains advisable.

By A. T. MILLER

AFTER roughly a 25-point retreat by the industrial average to the June 19 reaction low, a 9-day "basing out" phase was followed by rallying tendencies in the final June and the early-July trading sessions. They quickly made up nearly half of the May-June dip, were accompanied by some expansion in share turnover and posed the question whether a belated summer rise had begun. The market can supply the answer only by a nearer approach to the prior highs, with a further increase in volume to indicate more than transient revival in investment-speculative confidence.

Outcome of the test is quesswork at this time and was made more so by a relapse to narrow price fluctuation late last week. The "technical indicators" suggest probability of at least further upside efforts. Following narrowing for some weeks, the favorable spread of demand for stocks over supply for sale, as charted herewith, has widened moderately since the end of June.

Following six weeks in which the number of advances in individual stocks was exceeded by the number of declines, the reverse was true last week. More issues attained new highs than fell to new lows, whereas the opposite had been so in the two prior weeks through June 30. The numbers are not impressive but the ratio is at least more favorable.



The May-June sell-off by the 30 Dow industrials amounted to less than 3.6%, but did cancel about 18% of the prior rise from the low of last October. Viewed as a purely technical correction, it might well suffice. There was much broader downward adjustment in various more speculative sections of the securities markets. The urge to "play" for profits is less strong than in earlier months, but is not dead; and it probably would not take much betterment in market behavior to give it a lift, aided by normal seasonal tendencies.

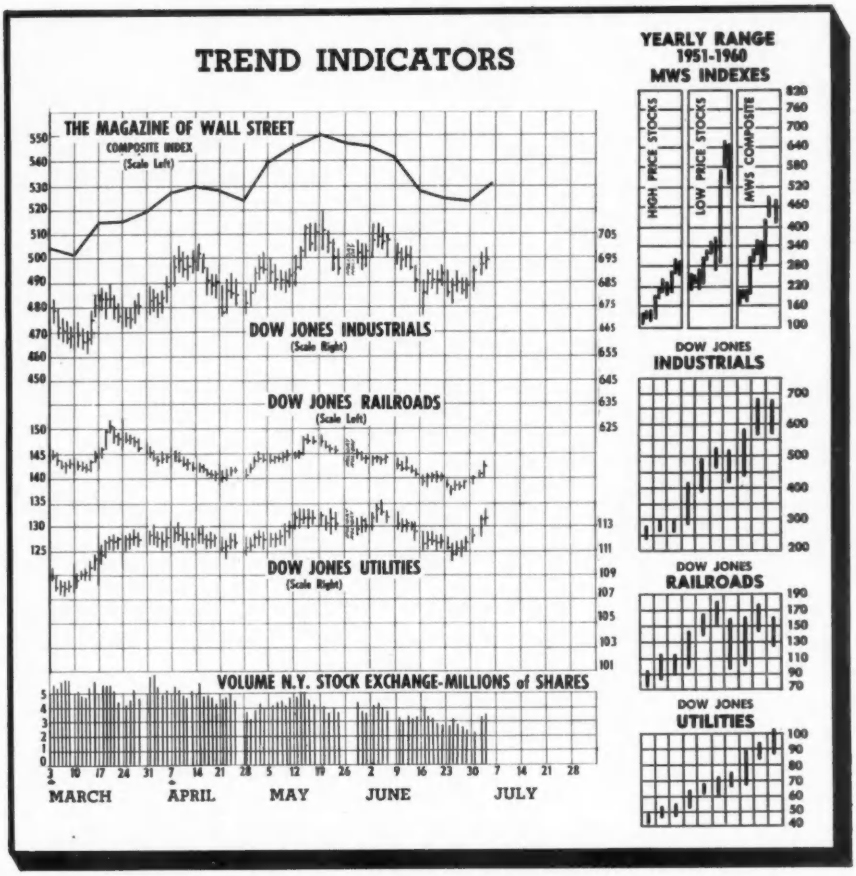
The Foreign Uncertainties

Thus, if the approaching Berlin crisis can be relegated to the background of investment-speculative thinking for a time — and if the Communists do not meanwhile manufacture gravely disturbing news somewhere else — one cannot rule out the possibility of more rally, a test of the earlier highs or even attainment of new highs by the industrial and utility averages.

Given half a chance, the financial community is normally inclined to play down foreign uncertainty and hope for the best. There is something to be said for this attitude, since limited war would be inflationary, and all-out nuclear war a catastrophe making it immaterial whether one owns stocks, bonds or cash.

Present Washington opinion in "the highest circles" is that Khrushchev will sign a peace treaty with the East German puppet government, that the

latter will then begin a series of actions interfering with or blocking Western access to Berlin, that these moves will stretch over an extended period, that they will have to be met by vigorous counter-action as they develop, and that the "odds" are against nuclear war. Perhaps it will be so — but we have to note that previous judgements in the "highest Washington circles" have not been such as to inspire confidence.



● Aside from foreign uncertainty, the pertinent investment questions have to do, as usual, with the outlook for business and corporate profits, commodity price trends and "inflation", Federal Reserve credit policies, the effects of Kennedy policies and attitudes on the climate for business, etc. — and also with the justifiable valuations of common stocks. Our view is that relatively high valuations and limited profit prospects argue against more than fairly moderate potentials for the averages, at best, and that money-making in stocks will be found mainly in companies producing products suited to our new needs in this revolutionary age — to a greater extent than has been true during most of the last decade or so. But greater care will have to be excercised in their selection for numerous reasons.

Brokers say: Lay off of over-exploited "glamour" stocks and lean toward good-grade cyclical stocks and "fairly priced" Blue Chips. But, on the whole, cyclical stocks, including capital-goods issues, have moved about in line with the market so far this year; and they show no current signs of being ready to go to town. As for "fairly priced" Blue Chips, where are they? Sure, some are well under past highs — because they have become basically less attractive in individual instances.

● As had been expected, the initial fast business recovery has slowed, but the cyclical outlook is favorable at least for an extended time. The Secretary of the Treasury has forecast an 8% rise in the gross national product in 1962.. That would not be unusual in the first full calendar year of revival from recession. It was exceeded, for example, in 1955 and 1959. Kennedy's idea that it should be a fairly steady 4½% a year perpetually—presumably by push-button control at Washington — remains just New Frontier hocum.

● There is recovery ahead in aggregate corporate earnings, but recovery is not growth. Until more of the slack is taken up, increased volume will bring temporary improvement — call it a "rally" — in operating margins. At best, they will remain considerably narrower than in the past, due to increasing competition; and business profits will continue to be a shrinking portion of gross national product.

● Widespread price cutting does not square with some of the loose brokerage-house talk about "inflation", and it will limit the recovery in profits. During the revival period to late June, the wholesale price index receded slightly, whereas at the same stage of prior postwar revivals it was moving up. The inflation in the consumer price index continues to be primarily in service costs, not in goods.

Coming Peak In Profits

The sequence in past revivals indicates that the cyclical peak in business profits probably will be seen not later than the 1962 second quarter, followed by levelling and slow slippage to the next recession. When will the market begin discounting this prospect? Are investors making sufficient allowance for the New-Dealish anti-Big-Business attitude of Kennedy and Brother Bobbie, out to make a name for himself as Attorney General?

The Federal Reserve will not put on the credit brakes for some time, but the reasons why are nothing for the market to cheer about. They are high unemployment and absence of inflationary price tendencies. Meanwhile, note that the Dow Industrial Average stands a mere 6.26 points above its January, 1960, high — thanks mainly to large gains, founded on good or rising earnings, by seven issues in non-durable goods, non-cyclical lines. Twenty-one of the 30 Dow Industrials are under their 1959 highs, and by wide margins in half of these instances. — Monday, July 10.

Waking Up To...

THE NEED FOR MODERNIZING OUR FINANCIAL MACHINERY

By JACK BAME

— Appraising the new Money and Credit Report — a benchmark for national financial management and understanding

► ***"Only one fellow in ten thousand understands the currency question, and we meet him every day"*—Kin Hubbard.**

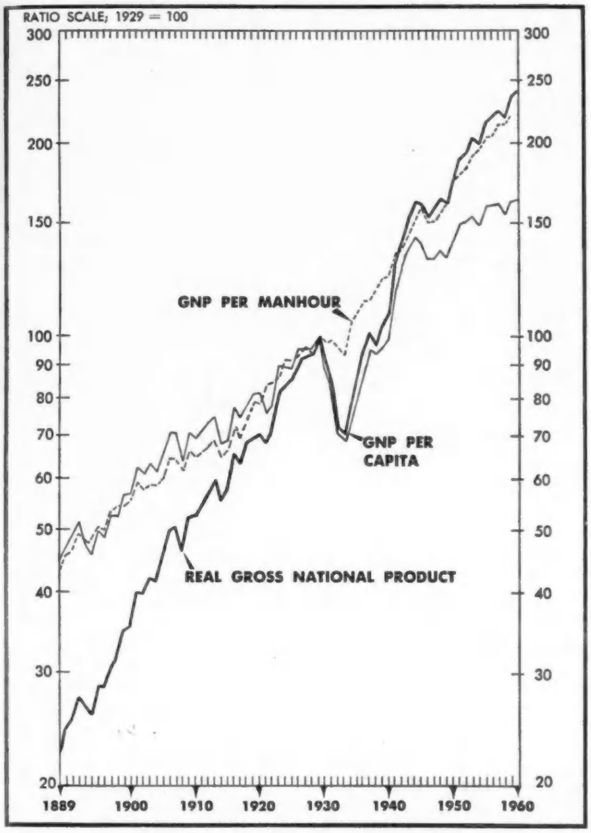
IT has become more and more the fad, especially since many of the communications mediums have spotlighted such terms as balance of payments, Federal Reserve policies, inflation, unemployment, boom, recession, economic growth, debt, management, etc. for everyone to become some sort of a self-styled economic expert. At the same time, the general public's knowledge and understanding of what makes our economy tick, or fail to do so, has actually become more confused and less informed as our economic system has become increasingly complicated. In no area is this more true than in our monetary and financial policies, instruments and institutions. This is one compelling reason why the Commission on Money and Credit's report (commented upon in "As I See It" in our June issue) is worthy of careful study and of as wide a reading public as can be reached. While a number of the recommendations are open to debate, and the adequacy of the proposals has been questioned, the report represents an important benchmark in the field of monetary management and presents a tangible instrument for broadening public understanding of our monetary and financial system.

Commission Members Disagree on Significance Of Study

The Commission itself was made up of representatives of various sectors of the economy, and numerous, often sharply dissenting, footnotes are prevalent throughout the report. It is of some significance that those of Stanley H. Ruttenberg, Research

THE ECONOMY'S REAL GROWTH RATE

INDEXES OF REAL GROSS NATIONAL PRODUCT, AGGREGATE, PER CAPITA, AND PER MANHOUR, 1889-1960



All measures based on 1929 prices. In this chart equal percentage changes in the indexes are shown as equal vertical distances. SOURCE: National Bureau of Economic Research.

Director of the AFL-CIO, and Charles B. Shuman, President of The American Farm Bureau Association, with drastically opposing economic philosophies, appear most often and are generally the most critical. But as stated in the preface to the report . . . "all (members of the Commission) approve the major substance of the report and urge careful consideration of its interrelated recommendations." **The fact that such general agreement could be reached at all could be construed to mean either that the report represented a rather objective and considered appraisal, or it was innocuous and inadequate to meet present and future problems.**

H. Christian Sonne, Vice Chairman of the Commission itself, takes the latter view, stating that the Commission fails to deal adequately "with the main economic changes and problems that we are likely to face during the crucial decade that lies ahead."

► His dissent is important, does have some validity and his salient question, which follows, could very well form the basis of a subsequent study . . . "We find in many fields of activity, such as those of foreign relations, military organization, communication . . . such profound underlying transformations that old methods have to be discarded to make room for new procedures . . .

Does the same apply to economic policies when we take a look at the problems of the Sixties? . . . it would seem strange if the answer were not in the affirmative. Yet I see nothing in the report that suggests any really important new approach . . . It is my strong belief that the public . . . is entitled to expect recommendations . . . which will deal also with the economic and monetary consequences of problems that are most likely to become important in the near future."

In a footnote at the start of the chapter considering private financial institutions, J. Irwin Miller, another Commission member, states" . . . *the need still remains for a study of our private financial institutions which will take a serious look at the future character of our economy as it may be expected to be a generation from now, and indicate the features any system of private financial institutions may have to possess in order not to impede our advance and in order to serve appropriately the new needs of the new day.*" Such comments should be paid heed to, but do not seem to detract from the considerable value of the report as it stands. It is true that its recommendations do not call for the wholesale overhaul of our financial structure; the Commission has avoided recommendations for change merely for the sake of change. But there is no law that says we must stop with this study and again wait for more than 50 years — as we have already waited for this comprehensive analysis since the 1908 Aldrich National Monetary Commission Report—to deal with "new" problems, which are often old by the time they are reviewed. The author would add a recommendation to the report that funds be appropriated for a continuing study of our money and credit system, with periodic reports to be published and discussed. Now for the body of the study itself . . .

National Economic Goals

The nation's primary economic goals are defined as adequate economic growth, a low level of unemployment and reasonable stability of prices— but within a broader framework of adequate national security and continuing contributions to economic development abroad.

The three main goals are accepted as basically compatible, *if we do not expect the impossible for each*, despite the possibility of conflict among them.

●Concerning reasonable **price stability,** the Commission is optimistic, stating that we should achieve a better record on prices in the next decade than we have in the past, with appropriate monetary, credit and fiscal policies. As for employment, the conclusion is that the problem ahead is "formidable" and requires, in addition to the above policies, new and imaginative programs to deal directly with structural unemployment, such as education and training of new and displaced workers and easing the burdens of the technologically unemployed.

●As for **economic growth,** the Commission "does not recommend the establishment of any specific rate of growth as a target," but then hedges and

says that it appears reasonable to "expect" a growth rate of real Gross National Product averaging 3½% and 4½% per year. **Both labor and management, the report goes on, must cooperate to make our system work effectively, along with the proper monetary, credit and fiscal measures. But this is a rather over-optimistic view, as both the monopolistic power of much of organized labor, which often draws benefits exceeding any productivity increase, and of certain sectors of industry have negative and harmful effects on many prices, on employment, on imports and exports and on our balance of payments. Government legislation is needed in these areas, if those involved do not voluntarily change their ways.**

Monetary Policy: Expanded Role For Federal Reserve Board Favored

After a rather illuminating review of monetary controls and the effects of restrictive and expansionary policies, the relation of monetary policy to cyclical stabilization is noted. The restrictive monetary policy of 1957 and again of 1959 demonstrates that the availability of credit can have a very substantial effect on the level and rate of growth and demand, according to the study. Monetary measures can and should be varied in either direction and reversed quickly at the authorities' discretion, but *sole reliance should not be placed on monetary policy for stabilization.* **As for long-run policy, the Commission states that the average rate of growth of the money supply should be consistent with the maintenance of high employment at stable prices, but since the quantity of money will depend on many elements, including changes in the stock of money substitutes (or near-money, such as Treasury bills), the money supply need not always increase at the same rate as the economy's output at high employment.**

Open Market Operations are recommended as the normal instrument of general monetary policy, to be principally relied upon for countercyclical adjustments. The present policy of the Fed, dealing in government securities of various maturites rather than "bills only", as domestic or international considerations warrant, is supported. **The study recommends that the discount facility be retained as a source of temporary credit, to be available when commercial banks need liquidity; that uniform standards of discounting practice be generally applied throughout the country and that a fully discretionary, uniform rediscount rate be established for all Federal Reserve banks (centralizing the power with the Reserve Bank). The power to change reserves requirements should be used only sparingly.**

The Commission rejects the idea of a system of reserves based on turnover of deposits, and likewise shelves the possibility of a compulsory secondary reserve requirement, as a number of other countries maintain. The present form of fractional reserve requirements against net demand deposits is considered adequate, while the Commission asks for the elimination of the classification of banks into country and reserve city banks, demand deposit reserve requirements for all to be made identical. **This would do away with the offsetting effects of shifts of funds between country and reserve city banks, which change the amount of required and excess reserves in the banking system. The repeal of existing statutory resrve requiremnts vs. savings and time deposits is called for; the power of the Federal Reserve Board to alter reserve requirements for demand deposits should be continued.**

No Clear Position On Credit Controls

The problem of *selective* monetary and credit controls is rather unsuitably glossed over, in this reviewer's opinion. The Commission, being almost evenly divided as to the desirability of granting stand-by authority to the Federal Reserve Board for ***consumer credit controls,*** makes no recommendation. **It questions the effectiveness of such controls as a regular countercyclical tool, and in the next breath urges an investigation of "better forms of such controls which could be administered more effectively if they should be needed."**

● The imposition of ***selective controls on residential housing credit*** is also rejected, except for a recommendation that the terms of housing loans guaranteed or insured by the Veterans Administration or FHA be varied, in support of countercyclical and price stabilization policies of the government.

● As far as **business credit** is concerned, the Commission suggests that possible methods of influencing inventory and investment expenditures on a selective basis be investigated by the government, but recognizes that such controls would be difficult to enforce and that expenditures for business plant, equipment and inventory are not homogeneous.

Superficial Treatment Of Non-Bank Financial Intermediaries

The question of **non-bank financial intermediaries** is then considered. **This area, perhaps, is in many ways *the most unsatisfactory part of the report,* in this writer's opinion, both as handled in relation to monetary policy and in the separate chapter on private financial institutions.** The role of the nonfinancial corporation as a source of financing to the general money market, and especially to U.S. government securities dealers, is not sufficiently dealt with. A weekly statement of the Market Statistics Department of the Federal Reserve Bank of New York, gives an idea of the relative importance of corporations as suppliers of funds.

FINANCING OF U.S. GOVERNMENT SECURITIES DEALERS

For Week Ended May 24, 1961

(Daily Average Amount Outstanding, in millions of dollars)

Source of Financing	Amount	Change from Preceding Week
Commercial Banks		
N. Y. City	791	—59
Elsewhere	560	—72
Corporations *	1,350	+201
All Other	211	—31
Total	2,912	+39

* All business corporations except commercial banks and insurance companies.

It is quite evident from the analysis that expert talent was utilized in these areas of the report but without adequate results.

● **"Near money",** such as Treasury bills, commercial paper, acceptances, etc., its growth and its effects, is not given enough consideration. *More needs to be done than to say . . . "the evidence of*

Distribution Of Assets Of Private Financial, Institutions, 1900, 1929, 1945, and 1958

(PERCENT)

	1900	1929	1945	1958
Commercial banks	52.9	41.8	56.5	39.5
Demand deposit business [a]	47.3	29.5	45.8	28.7
Savings and time deposit business [a]	5.6	12.3	10.7	10.8
Mutual savings banks	12.7	6.2	6.0	6.2
Savings and loan associations	2.6	4.7	3.1	9.1
Credit unions			0.1	0.7
Finance, mortgage, and loan companies	1.1	2.1	0.7	3.4
Life insurance companies	9.0	11.0	15.8	17.8
Other insurance companies	2.6	3.5	3.3	5.0
Private pension funds		0.3	.8	4.1
Investment companies [b]		4.7	1.3	3.3
Personal trust departments [c]	15.9	18.9	10.2	9.3
Security brokers and dealers	3.2	6.7	2.1	1.6
Total	100.0	100.0	100.0	100.0

Details may not add to totals because of rounding.
[a] Allocated in proportion of deposit liabilities.
[b] Includes investment holding companies.
[c] Includes common trust funds.
SOURCE: 1900 and 1929—Raymond W. Goldsmith, *Financial Intermediaries in the American Economy since 1900*, Princeton University Press for the National Bureau of Economic Research, 1958; 1945 and 1958—unpublished NBER figures.

the postwar years indicates that the increase of money substitutes has played a role in the rise of velocity, but there is disagreement as to its relative importance. There is also little disagreement as to whether money substitutes are likely to have a significant role in influencing the trend of velocity in the future . . ." and . . . "*their (non-bank financial intermediaries) effect on velocity in the long run can easily be taken into account in regulating the long-run money supply.*"

The Commission recommends against any extension of direct Federal Reserve controls over non-bank financial institutions, but then admits that ceilings imposed by the Fed on time and savings deposits of commercial banks restrict them from competing for such deposits with non-bank intermediaries not subject to these rate controls.

► **As far as the Federal Reserve System is concerned, a number of revisions are suggested, including that recommending that the Reserve Board Chairman and Vice Chairman be designated from the Board's membership by the President to serve for four-year terms, co-terminous with the President's, in place of the present extended tenure.**

This would make for closer coordination but carries some danger of too much political influence on the Board.

The Board should consist of five members (vs. the present seven) with overlapping ten-year terms, with occupational and geographical qualifications eliminated. The Board should determine open market policy and the rediscount rate, both representing a move towards centralization in Washington.

This Public Debt

► The Commission's view—which has thus far been accepted in theory by both Democratic and Republican administrations—is that budget policy should be countercyclical, moving toward deficits in periods of potential unemployment and toward a surplus during periods of potential inflation. The only trouble with this policy is that the accumulation of surpluses tends to be disregarded in prosperous times, Congress itself being the main culprit. **Debt management requires, says the study, that we halt the shortening of the outstanding publicly held marketable debt which has occurred since 1946. The Treasury should strive for a more balanced maturity structure** (no dissenting footnote appears under this recommendation!), which should be accomplished when general economic conditions are in some stage of upturn, when the restrictive effect of issuing long term securities is desired.

► As for **non-marketable debt,** the Commission recommends an expansion of savings bonds sales at yields competitive with those of alternate forms of investments for small savers, but is against suggested constant purchasing power savings bonds which would be linked to some price index.

► **It calls for the abolition of the debt limit** (which serves no useful purpose now, since Congress itself determines the level of government spending and tax rates, not the Treasury, and the Congress practices less fiscal discipline than any administration), and for **the elimination of the 4¼% interest rate limit on Treasury bonds,** which has led to further undesirable short term financing. More experimentation with advance refunding and auction techniques are asked for. The study opposes margin requirements, like those of the stock market, for the secondary market in Treasury securities but does urge minimum margins for non-regulated lenders, including non-financial corporations (one of the few places in the study where any such regulation is called for).

Countercyclical Income Tax Adjustments

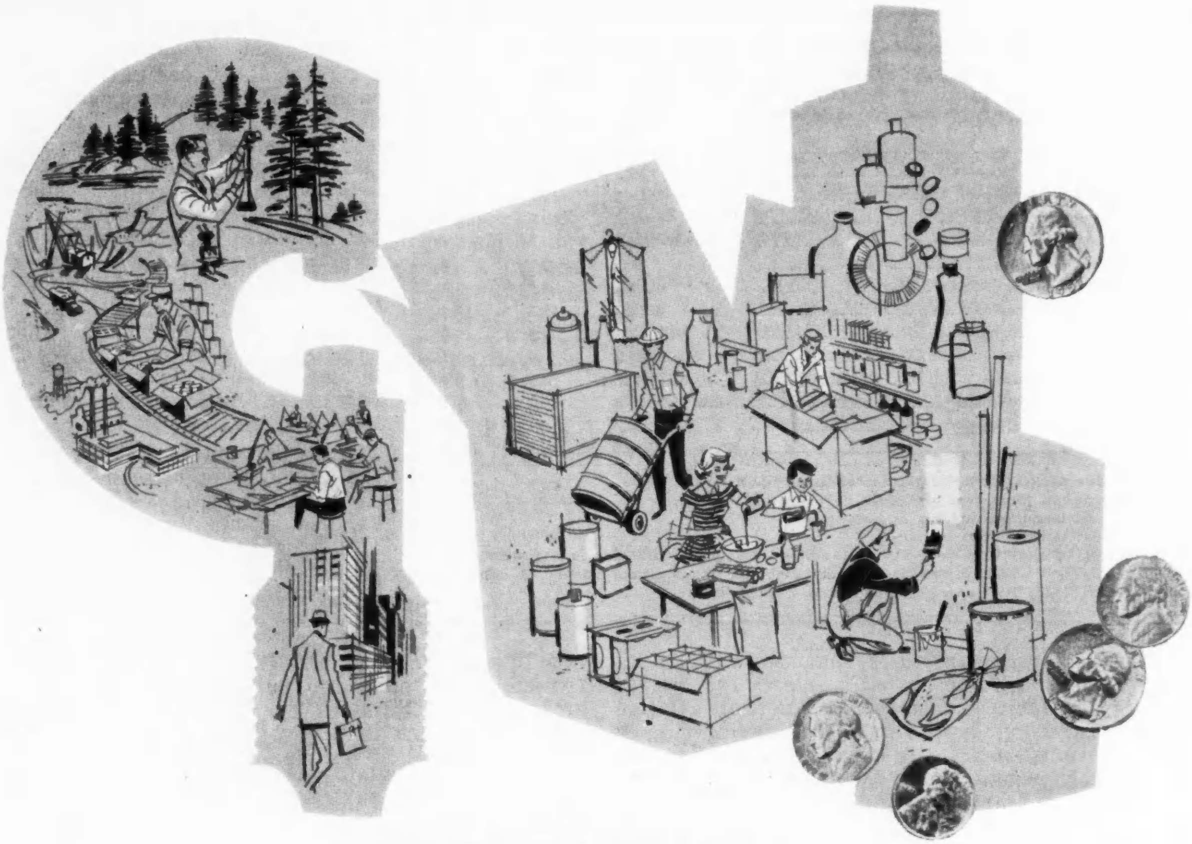
► The Commission favors, at least "as a promising approach that merits full-scale investigation", a flexible formula for automatic changes in the first-bracket personal income tax rate in response to changes in "appropriate" economic indicators. These indicators, however, might prove to be far from infallible.

Finally, it is recommended that the President be granted power, when in his judgment economic conditions are running significantly counter to the three national objectives, to make temporary countercyclical adjustments in the first-bracket personal income tax rate, limited to 5% up or down from the present 20% rate, and to 6 months duration, subject to renewal and to a legislative veto. This could be a very useful weapon against recession or inflation, if utilized properly.

Other important proposals are made regarding changes in planning and budgeting techniques in relation to the expenditure policy and to the presentation of the budget, which are rather technical in nature.

Significant Changes In Bank Regulation Favored

● A review of the evolution of the system is apparent from the ac- *(Please turn to page 496)*



REVOLUTION IN THE CAN INDUSTRY

— The battle between glass — cans — and plastic containers — for a place in the sun

By C. K. STROUT

- **This most interesting feature, by a first-class analyst, tells a fascinating story of ingenuity — growth — adjustment to new trends in products**
- **Those companies that have pulled themselves up by their boot straps to win competitive leadership and turn loss into profit — those that lag**

IT would be an understatement to say the container industry is going through a period of transition. A revolution is a more apt description of the fast and varied changes this industry is experiencing. After years of growth at the expense of glass, beer cans are starting to lose ground to non-refillable bottles. At the same time metal cans are making sharp inroads into the soft drink field where, despite their higher cost, they are starting to replace glass containers. Glass manufacturers are countering with a new one-way bottle for carbonated beverages. It will be the subject of a virogous industry-wide promotional campaign. Semi-rigid blown plastic containers have captured a major portion of the liquid household cleaner market and may well push glass out of the remainder. Plastic squeeze bottles have replaced both glass and metal in innumerable uses, while plastic films both supplement and replace paper.

Traditional types of rigid containers are being manufactured of new materials. Spurred by price concessions on the part of the aluminum producers, aluminum is becoming an important can making material. Already most of the frozen fruit juice pack and a substantial quantity of motor oil is being sent to market in aluminum. To meet this threat the steel companies have developed a lighter-weight tinplate that offers savings both to can manufacturers and their customers. Containers combining two or more materials are appearing, including

Statistical Data On Glass and Metal Container Companies

	Full Years: Net Sales 1959	Net Sales 1960	Net Profit Margins 1959	Net Profit Margins 1960	Net Earnings Per Share 1959	Net Earnings Per Share 1960	Cash Earnings Per Share 1960	Indicated Div. Per Share 1961	1st Quarter Earned Per Share 1960	1st Quarter Earned Per Share 1961	Price Range 1960-1961	Recent Price	Yield Div.
	(Millions)												
AMERICAN CAN .... W.C.† '59–$231.9; '60–$215.6	$1,107.4	$1,059.0	3.4%	3.1%	$2.42	$2.06	$4.48	$2.00	$0.35	$0.37	43⅝-30¾	41½	4.8%
ANCHOR-HOCKING GLASS W.C.† '59–$32.9; '60–$33.8	141.1	142.9	5.7	4.8	2.76	2.31	4.16	1.40	0.60	0.37	45¼-31¼	36	3.9
CONTINENTAL CAN.......... W.C.† '59–$157.9; '60–$162.2	1,146.5	1,117.0	3.5	2.4	3.20	2.21	5.11	1.80	0.30	0.39	47⅞-31½	40	4.5
CROWN CORK & SEAL....... W.C.† '59–$18.1; '60–$25.2	123.2	121.2	1.9	2.6	2.39	3.15	5.60	—	0.54	0.82	91¼-28¼	85¾	—
NATIONAL CAN................ W.C.† '59–$22.8; '60–$23.2	101.8	109.5	0.3	1.0	0.24	0.76	2.70	—	^{d}0.34	^{d}0.31	14¾- 8	11½	—
OWENS-ILLINOIS GLASS... W.C.† '59–$164.5; '60–$168.2	552.7	561.0	6.8	5.3	5.20	4.10	6.78	2.50	0.96	1.09	116 -82¾	92¼	2.71
THATCHER GLASS .... W.C.† '59–$14.9; '60–$11.9	49.9	51.5	5.3	3.1	2.45	1.48	3.58	1.40	0.44	0.30	33½-21	26	5.4

W.C.—Working capital. ^{d}—Deficit. †—In millions of dollars.

American Can: largest can maker with important interests in paper and plastics, recently entered glass container field. Moderate improvement in earnings expected this year. **A3**

Anchor-Hocking Glass: second largest glass container manufacturer and leading producer of glass tableware. Cost-price squeeze has restricted earnings. **B4**

Continental Can: second largest can manufacturer and well diversified in other phases of packaging industry. Should report higher earnings in 1961. **A3**

Crown Cork & Seal: sales divided between metal cans and crowns and closures. New management has brought substantial improvement. Equity in Crown Cork International enhances prospects. **B1**

National Can: third largest can manufacturer. Completion of current expansion program should allow management to concentrate on improving profits. **C3**

Owens-Illinois Glass: largest glass container manufacturer and leading producer of plastic bottles is well diversified in all phases of packaging industry with the exception of metal. Longer term prospects attractive. **A1**

Thatcher Glass: smaller factor in glass containers. Possible improvement in plastic container division may bring better earnings later in the year. **B3**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

aluminum can bodies with tinplate ends and fiber containers with metal ends. Glass technology is constantly producing stronger and lighter glass containers. Additional changes will emerge from the intensive research efforts of the major companies.

Major Growth Still Ahead

Packaging is one of the nation's largest and fastest growing fields. Over-all sales volume of $11 billion plus of paper, metal, glass, plastic and textile packaging materials is about equal to that of the steel industry. A wide diversity of estimates as to probable future growth is available, with even the most conservative foreseeing substantial expansion ahead. Supermarkets, discount houses, vending machines and all other forms of retailing which depend on self-service for all or a major portion of sales will demand more and more attractively packaged merchandise. Not only will the many types of packaging materials compete with each other for their share of the existing market, but entire new fields are opening as items not presently containerized at all are being packaged for the first time.

Sales To Grow Faster Than Earnings

What will these and other changes mean to the leading container companies? It will depend on how astute individual managements are in adjusting to the shifting demands for new types of packaging. The paper companies are already feeling the competition of plastic films and foils, and are taking steps to meet the challenge.

Plastics will probably grow much faster than any other packaging material. However, as entry into plastics conversion is relatively inexpensive, competition will probably prevent earnings from growing as quickly as sales. Furthermore, by reason of the important positions they have acquired in the paper industry, earnings of the three largest companies—American, Continental and Owens-Illinois—will reflect to some extent changes in paper prices, such as the 10% cut in linerboard announced in mid-June.

Can Makers Showing Improvement

American Can and **Continental Can** comprise almost the entire metal can industry. With about 80% of total production, they tower high over their next largest competitors. Nevertheless, can making is fiercely competitive, for the next several largest producers are companies such as **Campbell Soup, California Packing, Texas Company** and others that operate "captive" plants manufacturing cans for their own use. The constant threat of the spread of user-manufacture serves to place a ceiling on profit margins.

Presently, Continental and American are recovering from two difficult years that saw a precipitous drop in earnings. Early in 1959 **American,** concerned with the growth of captive production, twice reduced can prices. **Continental** and the rest of the industry were forced to follow. The reduction consumed the saving American expected from its recently completed coil program. Later in the year,

the long steel strike also entailed substantial extra expenses. Early 1960 sales were held back as customers worked off heavy inventories accumulated during the period of the Taft-Hartley injunction in late 1959. Smaller than usual crops and a cool summer that limited beer consumption further hindered last year's operations.

Continental's earnings fell from $3.51 per share in 1958 to $3.20 in 1959, and $2.21 last year. American's earnings slumped during corresponding periods from $2.78 to $2.42 to $2.06.

First quarter 1961 results are much more encouraging and seem to indicate that these companies have turned the corner. Continental was able to lift earnings per share from $.30 to $.39. Recently, General Lucius D. Clay, Chairman of the big can maker, forecast that 1961 sales and earnings would show substantial improvement over 1960 levels. American recorded a narrower rate of improvement, with per share earnings advancing from $.35 to $.37. Both companies should end 1961 ahead of last year.

Can Makers Well Diversified

While American and Continental are the leading can makers, cans are by no means their entire business. Both hit the merger trail a few years ago and are now well diversified throughout all phases of packaging.

American acquired Bradley Container (plastic tubes and squeeze bottles), Pittsburg Plastics (caps and nozzles) and Sun Tube (collapsible tubes), all in 1956. A year later Dixie Cup (paper plates and cups) and Marathon Corporation (industrial and consumer paper products) were added. Last year American announced the formation of American-Wheaton Glass Corporation, a 90% owned subsidiary, to manufacture a line of glass containers. American-Wheaton finished construction of one plant in 1960 and has a second nearing completion. As American is now constituted, containers, packaging materials and household products made of materials other than metal account for about one-third of sales. Cans will probably become even less important in the future as newer packaging materials, particularly plastics, gain a wider share of an expanding market.

Continental's movement into other packaging mediums has progressed even farther than American's. A long series of acquisitions was capped in 1956 with the merger of Hazel-Atlas Glass (glass containers), Robert Gair (paperboard and paper products), and White Cap (caps and closures). Last year metal containers accounted for only 53% of sales, followed in importance by paper 22%, glass and plastics 15%, and other materials about 10%. Like American's, Continental's can division will probably provide a smaller portion of sales in future years.

Hazel-Atlas To Cut Loss

Hazel-Atlas deserves a few words by itself. Since acquisition in 1956, this division has been a consistent money loser for Continental. Recently General Clay said that while glass operations will not be profitable this year, the loss will be smaller than in 1960, and Hazel-Atlas should at least break even during the third quarter. In time, this division has the potential to make a double contribution through both the elimination of a drain on earnings and the addition of a profit from operations.

In summation, the can companies are well diversified and prepared to participate in the future growth of the entire packaging field.

Greater Growth Indicated For Glass Containers

Owens-Illinois Glass probably has no plans to enter metal can production, but it is well established in most other areas of packaging. In addition to being the largest manufacturer of glass containers, accounting for about 40% of total industry output, it is also the largest producer of semi-rigid plastic bottles. The shift from glass to plastic in the packaging of household cleaners was, insofar as Owens Illinois was concerned, largely a matter of supplying customers with one product rather than another, and a more expensive product at that. Owens-Illinois is also an important producer of container-board and corrugated paper cartons, as well as various types of blown and pressed glassware, including tableware, laboratory glass and television bulbs. The company does not make flat glass.

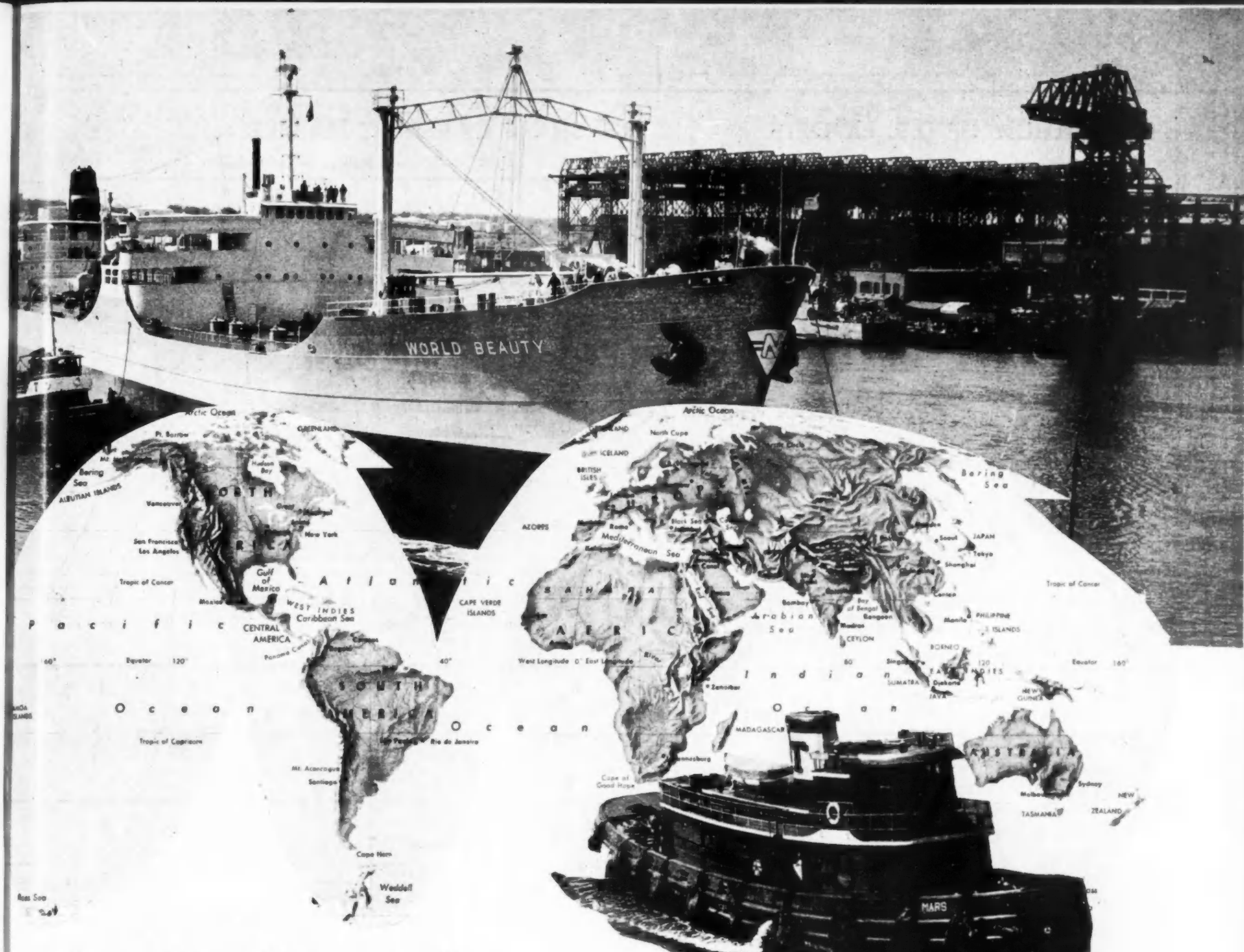
Owens-Illinois has an excellent earnings record. Between 1954 and 1959, profits climbed in fairly regular steps from $2.62 to $5.20 per share. In 1960, despite higher sales, earnings were off to $4.10, reflecting price weakness in the face of rising expenses. Start-up expenses, new mold costs, and the company's share of a major industrywide promotional campaign to encourage greater use of non-returnable beer bottles also contributed to the decline. Stimulated by heavy buying in advance of a price increase that became effective April 1, first quarter 1961 sales were up 10%. Earnings scored an even better advance, rising 19% from $0.96 to $1.09 per share. While full year earnings probably will not equal 1959's $5.20, they should show a nice gain from last year.

Over the longer term, Owens-Illinois will probably do better than either of the can companies. For technical reasons self-manufacture of glass containers is not a threat. Moreover, because glass is by its nature chemically inert, transparent, impermeable, non-porous and odorless, it is the ideal packaging medium for many items and less likely to be replaced by other materials than are metal cans. Most analysts agree that over the next five or ten years consumption of glass containers will outplace that of metal cans.

Outside Investments

A further plus factor for Owens-Illinois is its large portfolio of listed securities. At year end these were 2,099,948 shares of Owens-Corning Fiberglas, including 864,088 shares reserved for conversion of preferred; 160,000 shares of Container Corporation, 334,813 shares of Continental Can, 344,892 shares of Monsanto Chemical, and 74,428 shares of Pennsylvania Glass Sand. Carried at only $21.7 million, these investments have a current market value of $222 million, equal to approximately $30 per Owens-Illinois share.

The stock of Continental Can must be disposed of in time, and conversions of Owens-Illinois preferred may reduce the holding in O-C Fiberglas, but possible future appreciation prospects for this portfolio enhance the outlook for Owens-Illinois common. In addition, controlling interests in two leading European glass companies placed Owens-Illinois in an excellent position to *(Please turn to page 494)*



The Challenge of...

THE CHANGING WORLD ECONOMY

—Is Our Weapon To Be Trade Restrictions Or Trade Expansion to Meet Political Needs?

By JAMES A. LOUGHRAN

- **The dynamism of our latest export drive — our position re: the industrialized nations — impact in the making on plants abroad — competition — development of industrial facilities in the newly emerging nations.**
- **Basic problems in our import-export trade with Japan — the dilemma vis-a-vis Red China — and its significance economically and politically for the USA.**

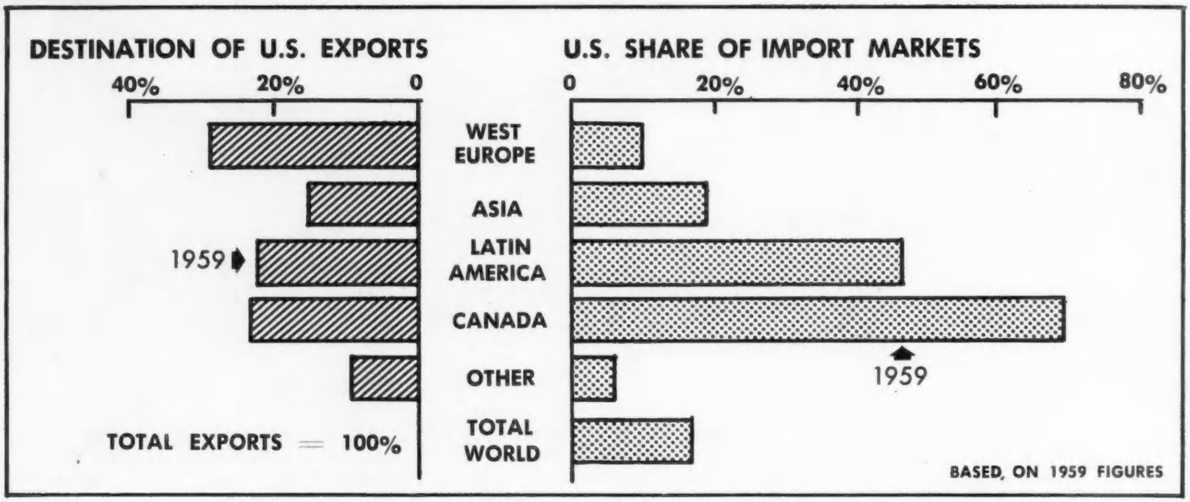
◆ ONLY A DECADE AGO, the United States dominated the principal export markets. When the postwar era began, America was the largest importer of goods and services and the most important source of capital in the world.

Thrust forward by a sense of mission, the United States became the greatest benefactor history has ever experienced. Confronted with a shattered world economy and the realities of Communist aggression, just over the last eleven years alone, we infused twenty-one billion dollars into the economic lifeline of the Free World. In this period we supplied the goods the world vitally needed and which our foreign aid programs enabled foreign customers to buy.

The world market was consequently based on American costs, American prices and American market conditions. In fact, our international economic position as recently as 1959 seemed impregnable. But profound changes threatening our complacent leadership were soon to descend on the international market place.

The "Dollar Crisis" Succeeds The "Dollar Gap"

Nations economically shattered during World War II have now become equipped with modern productive techniques and a rejuvenated sense of



the urgency to compete. Protective tariffs have come down, and vast new market areas, free from internal barriers to trade, are opening up. Mass production and the economies of large-scale operations are no longer the monopoly of the United States. Competition's challenges have become world-wide in scope.

It was only just recently, however, that the rapid accumulation of foreign liabilities has made it strikingly manifest that our generosity had gotten somewhat out of control, and that basic changes had occurred within the structure of the world economy.

The excess of our international payments over our receipts in 1959 and 1960 had cut into our hoard of gold and thrust our foreign indebtedness to the point where the strength of the dollar has raised the skeptical eyebrows of many foreign finance ministers.

The "dollar gap" of yesteryear has been replaced by the "dollar crisis" of today. It is important that the American businessman be cognizant of the trends and influences behind this dollar crisis.

At the base of our dollar crisis is our balance of trade, not our balance of payments. Aside from movements of short-term "swing" capital, nontrade payments have neither increased absolutely nor relatively. **The real origin of the crisis is not that imports have skyrocketed, but that exports have not kept pace with intensified world competition.** The record bears this out.

►Imports have been increasing steadily at the rate of 5% a year since 1953. Our exports, however, have only shown an average gain of 3¼% to 4% for the '53 to '59 period, even though the economy of the rest of the Free World has been expanding at a 6% to 7% annual clip.

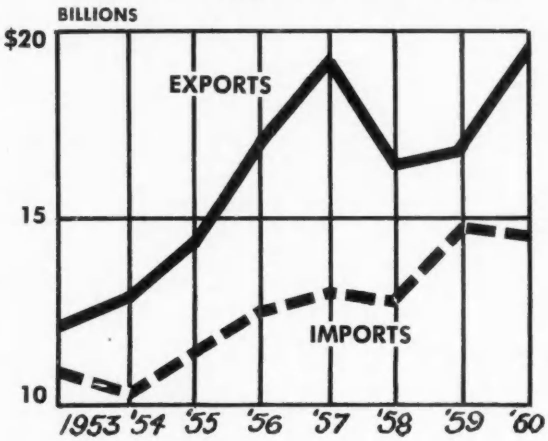
Initial Success In Export Drive But . . .

How are United States businessmen responding to this competitive challenge? A good many American firms responded so energetically that 1960 ended up with a notable increase in exports. Since last November Americans have been exporting at an annual rate of 20 billion dollars, far surpassing the Government's fondest hopes when it launched its

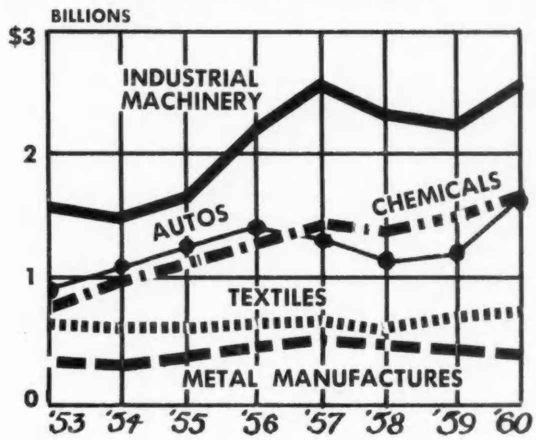
Japanese Economic Indicators

Items	Industrial Production	Real Wage Indices (Manufacturing)	Employment Indices (Mfg. Regular Employees)	Employment	Unemployment	Foreign Trade Exports	Foreign Trade Imports	Balance of Payments Visible Trade Balance	Balance of Payments Overall Balance	Gold and Foreign Exch. Reserve	Export and Import Price Index Exports	Export and Import Price Index Imports
	1955=100			10,000		U.S. $ million					1953=100	
1951	66	82.3	85.4	3,622	39	1,355	1,995	—	—	—	—	—
1952	70	91.5	87.9	3,729	47	1,273	2,028	—	—	930	—	—
1953	86	96.2	92.0	3,912	45	1,275	2,410	—	—	913	100.0	100.0
1954	93	95.3	97.1	3,962	59	1,629	2,399	—	—	637	96.9	94.2
1955	100.0	100.0	100.1	4,088	68	2,011	2,471	—	—	738	93.4	94.6
1956	122.0	108.9	109.5	4,172	63	2,501	3,230	—	—	839	96.4	95.9
1957	145.0	109.3	122.7	4,284	52	2,858	4,284	—384	—417	524	97.4	101.4
1958	145.0	112.8	125.4	4,312	56	2,877	3,033	511	337	524	90.7	88.4
1959	180.0	121.0	136.3	4,370	58	3,456	3,599	339	430	1,322	90.4	83.7
1960	227.0	—	—	4,472	43	4,055	4,492	111	522	1,824	94.3	81.7

TOTAL U.S. MERCHANDISE TRADE



SELECTED U.S. EXPORTS



export drive early last year. **Commercial exports during the first four months of 1961 were at a rate of nearly $20.3 billion a year, 8% higher than the rate of $18.8 billion for the 1960 period.**

This apparent success, however, is the result of experienced exporters' taking advantage of opportunities in the advanced industrial countries. There is scant evidence that the small and medium sized companies are seizing the export offensive in any substantial degree. Many of these firms shrink back in dismay from the complexities of the field. Others just don't relish the idea of venturing abroad to do business.

Will Smaller Companies Miss The Boat?

This attitude is somewhat understandable because producing and selling for overseas markets requires specialized internal planning and organization. Custom, climate, language, exchange regulations, credit needs, banking facilities, distributive practices, and a host of other complications—including politics and even such a simple factor as weights and measures, must be known and handled with tact and efficiency. But the internationalization of United States business is a fast moving and important trend and any company which wants to stay competitive and take advantage of international trends as it does domestic trends must broaden its horizons and enter the world market. If only the large companies organize as world enterprises and seize the international opportunities, the extra earnings they gain may make them even more of a threat to their small and medium-sized competitors who do not go international.

Unfortunately, many American executives do not understand the true character of the changes that are taking place in the international market today. Some are merely reacting to the Commerce Department's export program as a sense of duty to solve a temporary crisis. Others hang back and discount the opportunities abroad. But what all must face is that permanent changes have occurred—changes which require new attitudes, policies and orientation as a matter of self-interest; changes which will soon provide a potential annual market for forty billion dollars of American goods, twice America's present export rate. The successful businessman of this next decade will be the one who meets and profits by these changing conditions.

Pendulum May Swing Back To Favor Direct U.S. Exports

One such change is that the movement of productive facilities abroad will no longer prove to be as advantageous as it has been in the recent past. To be sure, the establishment of subsidiaries abroad remains a necessary approach to foreign business in areas where tariffs or foreign exchange shortages make importation impossible, or where it is more profitable to set up a lower cost base for developing foreign markets. But for many American producers the policy of building plants in other **industrialized** countries needs to be re-examined.

For one reason, encouragement from Washington is now directed to exports of goods rather than of capital, and the tax laws which have encouraged private investment in developed countries are under threat of modification. Again, costs in Europe and the United States may tend to equalize over the next decade, thus reducing the advantage of European production. Finally, tariffs are gradually being reduced and dollar discriminations abolished in accordance with the General Agreement on Tariffs and Trade.

In fact, it is these very industrialized countries that point up the best opportunities for expanding direct United States exports. For example, the economy of Western Europe since the war has advanced faster than that of the United States, and with the momentum given by the free trade areas industrial development and trade will continue to rise rapidly for at least another five years. After that, the industrial "costs gap" between America and Europe should narrow and the European trading blocs will become more securely established. This security will enable them to give more consideration to American pressure for tariff reduction, and an accelerated rise in imports from America will then be possible. The need for the kind of sophisticated consumer goods which American business is so adept at producing will greatly increase with the expanded wealth of Europe. *(Please turn to page 497)*

Inside Washington

BY "VERITAS"

ABSOLUTE Federal taxing authority that would abolish State and local taxation is "in the works" as something to bring about in the future. It will be officially denied, but a "hush-hush" task force of the President is exploring proposition that taxing powers of the States be wiped out in favor of a centralized Washington system of levies, the collections to be doled out by Uncle Sam according to local needs. Constitutional amendment would be necessary to thus "centralize" *all* government financing of everything from a rebuilt corner sewer, to the pay for local law enforcement offices. Nevertheless, the idea is under serious consideration, having endorsement of many Presidential advisors, who will unveil the plan in about three years. It follows the welfare state trend of the present Administration which very definitely feels that all power—tax, and otherwise—must originate in Washington's marbled mazes of bureaucracy.

WASHINGTON SEES:

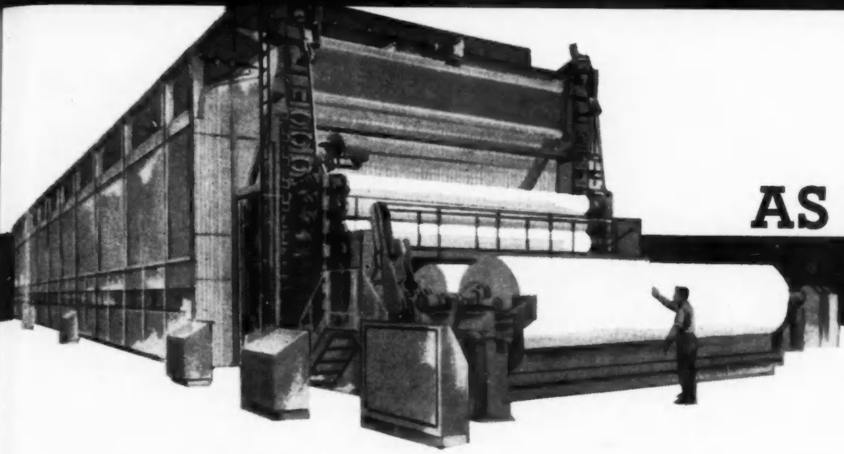
The Latins are pressing for a multi-billion dollar "crash" program of direct economic aid as an absolute necessity if most of the continent to the south of us is to be kept out of the Castro-Khrushchev orbit. The long-term, low interest loans through our Government-financed international lending agencies as mainstays of the "Alliance for Progress" program are grossly inadequate, according to those with reliable first-hand knowledge of conditions South of the Border.

Not only do they believe the loans inadequate, but in a large measure they are quietly resented by the Latins who feel we are wasting our substance in far-distant areas to the almost total neglect of next-door neighbors, all of whom would be of far more help to the United States in an East-West showdown than would the emerging republics of Africa and Asia, most of them directly "under the guns" of the common Red enemy.

Just when, if ever, Ambassador Adlai E. Stevenson's confidential report to the President is made public, it will be far more somber than any he has presented via press and television. In all of South and Central America we can boast only three heads of State who are firm friends of the United States, but their abilities to control their restless peoples—now hungry and getting large doses of Castroism—is the multi-billion dollar question.

DISARMAMENT, in the hands of a "super duper" agency, as proposed by the President, is not meeting too favorable response on Capitol Hill. The new setup would cost around $7 million a year for extra personnel, research, etc., but the feeling here is that the additional expenditure necessary could be better devoted to studies of means to *increase* armaments, rather than to whittle them. Despite apparent Congressional opposition, the proposal will clear both Houses, either before adjournment or early next year. According to one responsible legislative source, generally in support of the New Frontiersman at 1600 Pennsylvania Avenue, "Disarmament at this time is an utter impossibility; why study it when our worst enemy girds for a shooting war?"

ATOMIC shelter demand of the President, running into billions of dollars of cost, primarily designed to bolster the building trade unions' demands for more work, will not clear Congress this year. This despite fact that his request will be tied to the Kremlin-Berlin threat. For some years now, a majority of Congress has looked on the shelter plan, primarily sponsored by the Office of Civil Defense and Mobilization, as a wasteful means of buying votes (via patronage) at the local level. Congress feels that there is little or no defense against atomic attack, that a few billion dollars expended on shelters would be money "down a rat hole." Fact remains, however, that the President—despite objections from Defense Secretary McNamara—will press for the program, perhaps later turning its construction and operation over to the Department of Defense.



AS WE GO TO PRESS

Auto Liability Insurance Via Slot Machine. Taking a leaf from the insurance companies who have long offered air flight accident insurance through slot machines placed in airport terminals, one company now offers personal accident insurance on surface journeys through slot machines placed in gasoline service stations and other retail outlets, including groceries, super markets, etc. It has been so successful that auto liability and accident insurance will soon be available (for limited periods and journeys) in the same manner.

Congress May Stay In Session Indefinitely. Although hopeful of a mid-August adjournment at the latest, President Kennedy's June 29 press conference statement on East Berlin and Russian threats have posed the possibility that "perhaps the national legislature should stay in continuous session, prepared for any emergency." The quotes are direct and from a long-time Democratic Member of the Upper Chamber who confidentially advises "there is growing fear in both Parties that the 'young' Chief Executive is confronted with problems his inexperience and ignorance (despite a long membership on the Foreign Relations Committee) render him incapable of dealing with. Congress will have to stay close to Washington as a stabilizer and, of course, to move swiftly in the event of armed strife."

Defense Gets A "Breather" On Waste And Extravagance. Despite documented evidence of sloppy, slipshod procurement methods in the Pentagon, Congress cleared the $42 billion Defense Appropriation measure, but with a warning that "big brass" must do a housecleaning job on its procurement methods and policies. Estimates of recent annual cost of Pentagon inefficiencies in the procurement area run from $2 billion to $5 billion, but world tensions barred any "crack-down" at this time. In the meanwhile, Congressional groups will closely watch Pentagon procurement during the 1962 fiscal year with a view to consolidating all Defense procurement under a civilian set-up that will buy for Army, Navy and Air Force.

Accelerated Atomic Reactor Program Makes "Flying Start." Forecast here two weeks ago, private utility construction of atomic reactor plants for electric power generation has moved off to a good start with the recent announcement of Pacific Gas & Electric Co. that it would immediately initiate plans for construction of a $61 million, 325,000 kilowatt plant in California. Such private atomic power plant construction had been in abeyance pending a Supreme Court decision on the move of a labor union to halt construction and operation of such a facility near Detroit, Mich., on the grounds that proper safety precautions had not been taken by the Atomic Energy Commission. No public comment is available from AEC sources — privately, the Commission is elated at the PG&E decision, will do all possible to cooperate and (still privately) forecasts that the West Coast installation is "the head of a long parade of privately built atomic plants for electric power production." PG&E says the new plant will have an initial production cost of "slightly less" than six mills per kwh, but AEC researchers think this high, "that future developments" will bring the cost down to where it will be competitive with conventional coal, oil, or gas fired generating facilities.

Patent Rights To Inventions Developed By Private Industry Working Under Government Contract Will Not Be Resolved This Year. Under consideration by the Congress is a measure which would permit

private industry (and individuals) to retain patent rights to inventions developed while working on Government contract. Opposition is mainly from the left or "liberal" wing of Congress, but Commerce Secretary Luther Hodges may have found a "middle ground" satisfactory to all concerned — that Government demand only a license for its own purposes, while title to the invention remain with the private developer for commercial exploitation, since the Government is morally (but not legally) barred from competition with private enterprise. It will be the Commerce Secretary's view that the Government license will afford ample protection for defense purposes. Final and definitive legislation may not be expected at this Session, unless Congress remains in Session indefinitely to "keep an eye" on the international situation.

Rail Mergers Seem Slated For Approval. Interstate Commerce Commission, now engrossed in the proposed B&O—C&O merger, seems inclined to go along with this and future proposed mergers, provided it can be shown that one or more of the carriers involved is in financial difficulties. ICC hearings on the B&O—C&O "wedding" will proceed for months (maybe a year) before decision is handed down, but the decision definitely will be in favor of the combine, possibly setting a pattern for other pending rail mergers even though organized labor —strong right arm of the present Administration—will vigorously oppose.

Military Base Closures To Continue. This despite strong Congressional protests in many instances. Planned for discontinuance are about 50 domestic installations and activities. Initial announcements caused local concern in most instances, the communities affected, too long dependent upon military pay rolls, saw dire consequences to their economies. More sober reflection by many national legislators, local business organizations, has brought realization that closures amounted to "blessings in disguise." Tax-free government property would be returned to the tax rolls, the abandoned bases offering land and other facilities ideal for the development of new industries — expansion of old ones, even space for needed airports and airport developments. Of record. and for citation to other communities trying to hang on to military installations, are half a dozen military closures which have bolstered, rather than damaged, local economies.

Justice Department Trying To Avoid Anti-Trust Prosecutions. Although the New Frontier Administration has evinced a tough, hard anti-trust policy, look for the Anti-Trust Division to "lean over backwards" to avoid criminal prosecution and tactfully work toward amicably aranged consent decree settlements. Back of the softer policy is realization that harsh criminal proceedings can damage the national economy, while the negotiated consent decree approach will enable business to adjust itself without severe dislocations, many of them damaging to the national defense posture. In this connection, heavy fines (as well as jailing of some executives) in the General Electric and related cases, has proved a brake on sorely needed research and development in the fields of electronics and engines for jet aircraft.

Public Power Faces Crucial Congressional Test. Pending before the Congress are two proposed public power projects, adoption or rejection of which may markedly affect the future of public electric power in the United States. Both proposals are key steps the public power advocates deem necessary to future extension of the already gigantic Federal electric empire. Involved are $231 million in Federal appropriations to construct (1) a steam electric generating plant at government's atomic plant at Hanford, Wash., and (2) building of transmission lines for distribution of power that the Colorado River Storage Project will create. The Hanford steam project is the first such proposal outside of the Tennessee Valley Authority (a water power development that is now about 70% steam), while it has been amply demonstrated that private utilities can "wheel" power from the Colorado River project at rates that make the government construction wasteful. Fact remains, however, that the public power advocates seem to have the upper hand in Congress, that both projects will get Congressional okay before adjournment.

Quotable Quote—— "Leaking confidential information in Washington is like a Spring rain in my home state. It falls in one spot, but soon runs off in all directions."—Sen. Robert S. Kerr, "Sooner State" Democrat.

BANK STOCKS AS INVESTMENTS TODAY

— What's holding up the shares under lower earnings?

By PAUL J. MAYNARD

BANK stocks as a group have outperformed the stock market so far during 1961. On the average, bank stock prices are up about 20% since the first of the year, contrasting with a gain of about 13% recorded by industrials during the same period. This favorable market action in the face of a reduction in earnings to date this year suggests that investors are discounting the seemingly strong probability that bank earnings will resume their upward climb later in 1961 or in 1962.

The market action of bank stocks traditionally tends to run either ahead of or behind their earnings performance. The existence of a lag apparently is related to the fact that it takes the better part of a year for a change in money rates to be reflected in bank earnings. A year ago bank earnings were moving upward, based on the increase in interest rates which took place in 1959 and early 1960. However, at that time market prices of bank stocks were declining. The market was then anticipating the apparent effects of the rapidly developing decline in business and consequent reduction in money rates which were in prospect. Currently, the market prices of bank stocks have been rising in anticipation of the higher interest rates which the present upward movement in business activity is expected to produce. Completely overlooked by the market is the fact that actual current earnings of the banks for 1961 are being adversely affected by the lower level of interest rates than in 1960 which has prevailed to date this year.

Bank Stocks Earning Multipliers Still Modest

It may be pointed out that the current average price-earnings ratio of bank stocks as a group, even after the recent rise, is about 16 times compared to an average price earnings ratio of about 21 times for public utility stocks. Certain industrial stock

groups with growth characteristics have been selling at even larger multiples of earnings. Thus, the recent upward movement in bank stocks also may be ascribed in part to a market re-appraisal of this group to a higher price-earnings ratio.

Aggregate earnings of the ten major New York City banks have recorded an impressive gain of over 150% in the ten years 1950-1960. This is an even better rate of growth than the 130% rise in net income available for common registered by the electric and gas utility industry during the same ten year period. Yet the average price-earnings ratio applicable to New York City bank stocks has risen only from 14 to 16 times in this period, while the price-earnings ratio applicable to electric and gas utility operating company common stocks has increased from an average of 12 times in 1950 to an average of over 21 times currently. The average yield on New York City bank stocks is currently just under 3½%, which is lower than it has generally been, but is higher than the yield stock groups.

Higher Earnings Assets Offset Rate Reduction

Bank earnings are the resultant of a formula which may be stated in general terms as follows: Average Interest Rate times Volume of Earning Assets less Operating Expenses and Taxes equals Net Operating Earnings.

A year ago the prime lending rate (the interest rate changed the strongest and highest rated borrowers) was 5%. This rate was reduced to 4½% on August 23, 1960. The lowering of the prime rate was accompanied by a reduction in the general interest rate structure applicable to investments as well as loans.

However, as is the usual pattern under conditions of easing money rates, even though loan volume has declined, the volume of all earning assets of banks (loans plus investments) has tended to increase at the same time that interest rates have declined. The increase has been due in part to a reduction in reserve requirements and in part to the effects of increased open market purchases of U.S. Government bonds by the Federal Reserve in connection with its easy money policies. The Federal Reserve has kept the balance of "free reserves" of the banks at a relatively high level of $500 million.

Deficit financing also has contributed to an increased money supply in the form of bank deposits. Thus, an increase in the volume of earning assets is helping to offset the decrease in money rates which has taken place. For example, the combined earning assets of ten major New York City banks as of March 31, 1961 was $27 billion, up $2.6 billion above the comparable figure of $24.4 billion as of March 31, 1960.

5% Prime Rate May Be Restored

When the currently higher level of business activity becomes reflected in a stronger demand for bank credit in the form of loans as well as in the demand for long term money in the bond markets, interest rates should continue to firm, as they already have been doing in the past few months. If the strength of this firming trend is sufficient to push the bank prime lending rate back to its former level of 5%, bank earnings will rise again. The application of a higher interest rate to the present enlarged volume of earnings assets would seem to make a healthy improvement in bank earnings almost inevitable.

Expenses Well Controlled

In the matter of controlling operating costs, the record of banks generally has been very good. A study of aggregate operating results for ten major New York City banks shows that their payments for wages, salaries and employee benefits currently equal about 28% of total income, compared to 31.8% as recently as 1955. Total operating expenses likewise have declined from 53.8% of gross to 53% in the same period, and the balance available for common has remained stable at about 25.5%. Automation in banking procedures has helped raise productivity per bank employee. Further substantial gains in efficiency of banking operations are anticipated as electronic machine processing of checks with magnetic ink identifying symbols comes into general usage.

● A balancing factor for the banks is their capital gains and losses on security transactions. In periods of rising interest rates, bank operating earnings show the best increases, but bond prices at such times tend to decline, producing bond losses which partially offset operating gains. On the other hand, when interest rates are declining, contributing to lower operating earnings, bond prices tend to rise, producing offsetting security profits. **For many banks this year is expected to be a security profit year. However, a rapid rise in interest rates in the last half of the year could change this situation.**

Unusual Activity In The Merger Arena

The first half of 1961 has been filled with important developments relating to banks and bank stocks. Among the important events affecting the banks which have taken place in the first six months of 1961 are the following:

● Two major New York City banks, **The Hanover Bank** and **Manufacturers Trust Company** announced a merger plan which was subsequently approved by shareholders and on May 23 by the Superintendent of Banks of New York. The plan now awaits action by the Federal Reserve's Board of Governors.

● Four other large New York City banks have announced plans of combination with other banks located outside New York City to take advantage of opportunities for more rapid growth in those areas. **Morgan Guaranty Trust Company** has applied for approval of the formation of a statewide bank holding company which would include banks in Buffalo, Syracuse, Rochester, Albany and Binghamton. **First National City Bank** of New York has requested approval by the Comptroller of the Currency of a proposed merger with National Bank of Westchester. **Chemical Bank New York Trust Company** has applied to the Superintendent of Banks of New York for approval of a proposed merger with Long Island Trust Company and **Chase Manhattan Bank** has announced a proposed merger with the Hempstead Bank on Long Island.

● **Partially counteracting the bullish effects of**

Statistical Data on Leading Bank Stocks

	Total Deposits 6/30 1961	Total Deposits 12/31 1960	Loans & Discounts 6/30 1961	Loans & Discounts 12/31 1960	U. S. Gov't Securities 6/30 1961	U. S. Gov't Securities 12/31 1960	Per Share Book Value 6/30/61	Earnings Per Share * 12 Mos. To 6/30/61	Earnings Per Share * Calendar Year 1960	Indicated Current Dividend †	Recent Bid Price	Dividend Yield
	(Millions)											
Bank of America (San Fran.)	$10,624	$10,805	$6,510	$6,700	$ N.A.	$1,782	$25.73	$3.54	$3.64	$2.00	59	3.3%
Bank of New York	535	606	289	295	109	99	211.46	22.50	23.19	15.00	374	4.0
Bankers Trust, New York	2,975	3,032	1,684	1,567	672	672	36.90	3.84	4.00	1.97	64½	3.1
Chase Manhattan, New York	7,735	8,143	4,205	4,336	1,615	1,779	50.57	5.16	5.32	2.50[2]	77	3.2
Chemical Bank N. Y. Trust Co.	3,980	3,898	2,241	2,234	589	569	49.73	5.02	4.83	2.60	78	3.3
Continental Ill. Nat. Bk. (Chi)	N. A.	2,482	N. A.	1,436	N. A.	527	95.63[3]	N. A.	10.02	4.00	147	2.7
Crocker-Anglo National Bank	1,661[3]	1,687	978[3]	979	440[3]	429	24.35[3]	3.05[3]	2.98	1.40	54½	2.6
First National Bank of Boston	1,526[3]	1,615	1,074[3]	913	244[3]	392	56.43[3]	6.33[3]	6.31	3.00	87	3.5
First National of Chicago	N. A.	2,776	N. A.	1,726	N. A.	540	40.40[4]	N. A.	4.86	1.60[2]	84	1.9
First National City Bank, N.Y.	7,456	7,770	4,067	4,260	1,850	1,524	63.99	5.75	5.95	3.00[2]	91	3.3
First Penna. Banking & Trust	1,073[3]	1,119	656[3]	645	138[3]	127	40.71[3]	4.15[3]	4.20	2.30	58	4.0
Hanover Bank, N. Y.	1,747	1,886	966	976	388[3]	442	37.96	3.58	3.70	2.00[2]	51½	3.9
Irving Trust, New York	1,807	1,999	981	959	404	384	28.34	3.12	3.36	1.60[2]	45½	3.5
Manufacturers Trust, N. Y.	3,236	3,465	1,528	1,531	783	713	49.74	5.08	5.16	2.60	74	3.5
Mellon National Pittsburgh	1,730[3]	1,854	986[3]	1,055	414[3]	509	113.98[3]	9.28[3]	9.29	4.00[2]	156	2.6
Morgan Guaranty Trust, N. Y.	3,650	3,646	2,354	2,352	757	450	69.61	6.52	6.91	4.00	122	3.3
Security-First Nat'l, Los Angeles	3,378	3,284	1,649	1,647	1,133	1,055	36.85	3.98	4.06	1.60[2]	81½	1.9
Wells Fargo Bank	2,385[3]	2,449	1,399[3]	1,412	601[3]	635	39.26[3]	3.93[3]	4.04	1.60[2]	73	2.2

*—Net operating or indicated earnings.
†—Based on latest dividend reports.
N.A.—Not available.

1—Combined Bank & Trust Co.
2—Plus stock.
3—March 31, 1961.
4—Dec. 31, 1960.

these announcements has been increased opposition to bank mergers by the Anti-Trust Division of the Department of Justice. This has tended to slow down the merger movement. Also, the New York Superintendent of Banks refused permission to Bankers Trust Company to form a bank holding company with County Trust Company of White Plains. The authority of the Justice Department with respect to bank mergers is being tested in a case now before the U.S. District Court in Philadelphia. This case involves the comptroller-approved merger of the Philadelphia National Bank and the Girard Trust Corn Exchange Bank, which the Justice Department is opposing on the grounds that it violates the anti-trust laws. The outcome of this suit may have an important bearing on future developments in the bank merger movement.

If . . .

It is impossible to predict with any degree of certainty the final outcome of current and pending bank merger applications. If the Justice Department succeeds in stopping or seriously retarding the bank merger movement, the market action of bank stocks could be adversely affected, at least temporarily. If pending mergers are consummated, however, the implications will be considered favorable for the banks and bank stock. The proposed moves of the New York City banks into the more rapidly growing suburban counties of Westchester and Nassau would open up new growth opportunities to those institutions.

Categories Of Bank Stocks

The list of bank stocks available for investment may be broken down into the following principal categories:

—1. New York City bank stocks.

—2. Stocks of banks in other large eastern cities such as Boston and Philadelphia.

—3. Midwest bank stocks.

—4. West Coast bank stocks.

—5. Bank holding company stocks.

As a result of the many mergers of the past decade the number of major New York City banks has been reduced by about half to a current figure of eight. Of these, five have large branch systems and may be regarded as well-rounded "retail" as well as "wholesale" banks. These are: **Chase Manhattan, First National City, Chemical New York Trust, Manufacturers Trust and Bankers Trust.** Morgan Guaranty, Hanover Bank and Irving Trust have relatively little by way of "retail" banking business but are strong in the "wholesale field." Diversification is enjoyed by the major New York City banks by virtue of their extensive foreign banking activities (particularly in the cases of First National City, Chase Manhattan and Morgan Guaranty) as well as their substantial trust business, both corporate and personal.

New York "Wholesale" Banks More Sensitive To Interest Rates

Because of the relatively large average size of the corporate customers of the New York City banks and the dominance of prime rated accounts, these banks are more quickly susceptible to the effects of changes in money rates than banks which have more of the smaller individual accounts. Thus, the New York City banks have experienced a greater decline in earnings under the conditions of this year's lower prime rate than the banks in other parts of the country. The reason for this is that the latter banks have larger percentages of their loans in the form of credit to individuals (personal and instalment) and *(Please turn to page 499)*

Mid-Year Forecast of...

What's Ahead for THE RAILROADS

By ROBERT B SHAW

- **IF the railroads get equitable tax treatment — rate-making freedom — the right to merge — the right to diversify — and relief from excessive regulation — OH BOY!**
- **In the meantime — there is a varying status for the individual roads — from blue chip to highly speculative**
- **Each road — its position and outlook — is carefully appraised in this story . . . tells you which to buy — to hold — and where the "waiting game" is the best policy**

THE most sensitive barometer of railroad health, weekly carloadings, still reveals a distinctly anemic condition for the nation's carriers. For the seven-day period ended June 24, loading of 600,001 cars fell 6.4% below the corresponding 1960 figure of 641,337 cars, already representing a starvation diet. To be sure, loadings have risen steadily during the current year, but this primarily represents a seasonal trend rather than any basic improvement. As a matter of fact, loadings have never been as low as at present during any June since the depression era; normally, 700,000 loadings weekly would be nothing to boast about at this time of year, and even the 800,000 level has occasionally been exceeded.

Such generalized data has already been translated into depressing results for individual roads. Without exception, among all major carriers gross revenue was substantially reduced in the first four months of the present year, as compared with the corresponding period of 1960. The lines for which this meant merely a reduction in net income can count themselves fortunate. Giant New York Central was just obliged to report a deficit of $25 million for the first five months, the heaviest loss for any such period in its history, and Pennsylvania suffered an $18 million loss, contrasting with a small profit a year ago.

In a broader perspective, and even assuming that the present slump is temporary, the best the railroads have been able to do since World War II, despite all their conspicuous improvements, has been to stand still. As business activity and total traffic have mounted rapidly during this period, this means that the rails have suffered a severe loss in relative position. **At the end of the war they were carrying roughly two-thirds of the nation's freight in terms of ton-miles; today their share has slipped to about 44%.**

Even within this discouraging picture many individual roads still offer generous yields on well-protected dividends. Some few enjoy substantial non-rail earnings. But railroad equities cannot really qualify as interesting investments unless there is some hope, at the least, of checking this deterioration and, preferably, of reversing it.

In the light of actual experience it requires some faith to back up the expectation of railroad improvement with hard-earned investment dollars. Nevertheless, there are good reasons which suggest that such faith may be well rewarded.

The Railroads' Magna Carta

It is true that the railroads have been complaining for so many years about discrimination that

they have unjustly won a reputation as chronic complainers and probably they have also neglected to examine more closely their own shortcomings. **Nevertheless, they have undoubtedly been seriously victimized by governmental regulations and taxation. The "taxes" which rival forms of transportation pay are in actuality fees for the facilities provided; only railroad taxes are diverted 100% to police protection, schools and other general costs of government. On top of that, the railroads are generally assessed two to five times heavier than neighboring property owners.**

It is an unfortunate commentary upon our society that an industry can only obtain justice when it faces distress—but such is the case. The railroads' are currently dramatizing their claims to fair treatment by assertion of their "Magna Carta", and have already won the widest measure of public support in many years.

● **Essential elements in this campaign include equitable tax treatment, rate-making freedom, the right to merge, the right to diversify and relief from excessive regulation.**

Must The Rails Hold an Umbrella Over Their Competitors?

► **Forms of regulation which may have been justified when the railroads possessed a near-monopoly have become absurd today. For example, the railroads must publish their rates. Contract and private truckers (or barge lines) need not do so; this means, in effect, that the railroad rates are simply a conspicuous target at which their competitors can safely snipe from concealment.**

In the past the railroads have typically visualized rate increases as a panacea for their troubles, but today they are more eager to institute selective reductions on traffic particularly vulnerable to competition or which may already have withered away to the vanishing point. **Any rate exceeding out-of-pocket cost on commodities not presently being handled would contribute to railroad net. Yet, it has been held—although the law is ambiguous—that railroad rates must be fixed partly on the basis of their effect upon other forms of transportation. In brief, their tariffs must be maintained at unrealistic levels to protect their competitors!**

► **Note that liberal exemptions for "agricultural commodities"—a category capable of very broad expansion by interpretation—removes a large proportion of truck traffic from Interstate Commerce Commission jurisdiction, and regulation even on manufactured goods is often evaded by the fiction that the shipment is "sold" to the truck operator for the duration of each trip. Private "do-it-yourself" haulage is exempt from all except safety regulation, and is thus being artificially encouraged at the expense of common carriers, both truck and rail.**

Railroads Seek Right to Diversify

When Continental Can becomes disturbed about the inroads of glass or paperboard containers it is quite entitled, as it has done, to acquire Hazel-Atlas and Robert Gair and thenceforth offer a complete line of packaging, best fitting each customer's needs and specifications.

But somehow this basic freedom to expand and diversify is denied the railroads. Undoubtedly it would make sense if the railroads were to be metamorphosed into "transportation companies", offering universal coordinated services by the means most appropriate to each shipment.

Some limited beginnings have already been made. The **Norfolk & Western** and **Chesapeake & Ohio** Railroads recently acquired a coal-carrying barge line, and the **Pennsylvania** has just become the first eastern road to undertake construction of a petroleum products pipe line, emulating a successful venture by the **Southern Pacific** five years ago. Many railroads do operate affiliated truck lines, which have proved invaluable in handling less-than-carload shipments and in eliminating unprofitable way freights. Yet these truck lines are usually hedged around with onerous restrictions, the most common being the requirement that every consignment carried must also receive a prior or subsequent rail haul.

Only a thorough change of attitude on the part of the I.C.C.—and of its mentor, Congress—will allow railroads to offer unified transportation services. Railroad stockholders can, of course, help themselves by making their opinions known to their elected representatives.

Mergers Blocked By Squabbles

The slow progress of the most obvious mergers—like that among the **Great Northern, Northern**

Statistical Position of Leading Railroads

	Gross Revenues 1st 4 months 1960 (Millions)	Gross Revenues 1st 4 months 1961 (Millions)	Percentage Change %	Operating Ratio Full Year 1960	Operating Ratio 1st 4 Months 1961	Net Per Share * Full Year 1960	Net Per Share * 1st 4 Months 1961	Indicated Div. 1961 †	Recent Price	Div. Yield
Atchison, Top. & Santa Fe	$203.8	$185.8	— 8.8%	78.5%	79.4%	$ 1.87	$ .35	$1.45	26	5.5%
Atlantic Coast Line	59.4	56.1	— 5.4	80.4	77.8	4.02	1.20	2.00	42	4.7
Baltimore & Ohio	133.4	104.3	—21.0	82.2	91.3	.08	[d]6.02	.80	34	2.3
Chesapeake & Ohio	146.0[1]	119.1[1]	—18.4[1]	77.1	86.6[1]	5.15	.93[1]	4.00	62	6.4
Chic., Milw., St. P. & Pac.	72.8	67.4	— 7.4	81.6	85.5	[d].60	[d]2.05	—	14	—
Chicago & Northwestern	71.6	65.0	— 9.2	86.2	90.3	[d]14.45	[d]8.64	—	18	—
Chic., Rock Island & Pac.	69.9	66.6	— 4.7	80.2	79.1	2.06	.55	1.60	22	7.2
Del. & Hudson	15.7[2]	13.8[2]	—12.3	81.5[2]	80.1[2]	1.91	.17	1.40	16	8.7
Denver & Rio Grande W.	25.7	23.4	— 9.0	66.2	67.3	1.36	.37	1.00	17	5.8
Erie-Lackawanna R. R.	77.8	66.6	—14.3	88.1	96.6	[d]4.39	[d]2.83	—	5	—
Great Northern Rwy.	95.1[1]	84.8[1]	—10.8[1]	78.9	89.0[1]	3.41	.003	3.00	45	6.6
Gulf, Mobile & Ohio	26.1	25.0	— 4.2	79.1	75.7	.92	.79	1.50	23	7.3
Illinois Central	87.4	79.5	— 9.0	81.1	81.4	3.56	.87	2.00	40	5.0
Kansas City Southern Sys.	23.4	20.9	—10.9	59.8	62.5	8.07	2.23	4.00	79	5.0
Lehigh Valley	18.7	14.1	—24.3	91.4	102.2	[d]2.14	[d]2.57	—	4	—
Louisville & Nashville	77.3	63.3	—18.1	81.9	82.8	4.28	.66	3.00	50	6.0

*—Before funds.
†—Based on latest dividend reports.
d—Deficit.
1—5 months to May 31.
2—Delaware & Hudson R. R.

Atchison: a quality western transcontinental, possessing substantial non-rail properties. Favored in contest for control of Western Pacific. **A1**

Atlantic Coast Line: merger with Seaboard should be effected fairly rapidly. Lower L. & N. dividends will hurt but company's own $2 rate pretty secure. **B2**

Baltimore & Ohio: main interest here is merger with Chesapeake & Ohio on basis 1¾ shares B. & O. for each share C. & O. Merger will be delayed by opposition but should be accomplished eventually. **C4**

Chesapeake & Ohio: has apparently defeated New York Central in contest for control of B. & O. Bituminous coal provides stable earnings base. **A2**

Chicago, Milwaukee: lightest traffic density among all transcontinentals makes this road essentially speculative. Dividends suspended. **C4**

Chicago & Northwestern: operations are greatly influenced by crop conditions and these are difficult to forecast. The stock is speculative. **C3**

Chicago, Rock Island: fair quality and probably an ultimate merger candidate. **B2**

Delaware & Hudson: one of better eastern roads but too small to stand on its own feet as merger trend progresses. **B2**

Denver & Rio Grande: upper medium quality bridge line carrier. **B2**

Erie-Lackawanna: merger economies insufficient to restore earning power in early future. **D4**

Great Northern: attractive in own right and also as partner in large northwestern merger. **B2**

Gulf, Mobile & Ohio: vulnerable to competition and less attractive than other southern roads. **C2**

Illinois Central: outlook for this major north-and-south carrier is improving. **B1**

Kansas City Southern: increasing industrialization of service territory offers good opportunities. **A1**

Lehigh Valley: marginal eastern carrier which must eventually be absorbed into Pennsylvania system. **D4**

Louisville & Nashville: status in merger picture indeterminate, but fairly attractive in own right despite recent dividend cuts. **B2**

Missouri-Kansas-Texas: Katy's position is marginal at best and it also has difficult bond maturity problem approaching next year. **D3**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earning trend. 3—Earnings up from the lows. 4—Lower earnings trend.

Pacific and **Burlington** roads—provides a further example of the monolithic inertia in the railroad field. Here it must be admitted, however, that labor unions and public bodies, with their delaying tactics, are not the only villains. Too much energy is also being lost by internecine fighting among the railroads. When any two roads merge it is inevitable that others are going to be injured by the disruption of established traffic patterns; this fact in itself should not be accepted as a justifiable objection to any proposed merger.

In Eastern Trunk Territory it seems logical that two major systems must eventually be built around the **Pennsylvania** and the **New York Central.** Yet the Central's current financial position is far too perilous to allow its participation in the prospective **Chesapeake & Ohio - Baltimore & Ohio** union on any terms fair to its own stockholders, and the benefits of this merger should not be suspended simply because the Central also "wants in".

Since our most recent discussion of railroad mergers, one favorable significant event has occurred. By a decisive 8-1 margin in a case specifically involving the **Erie-Lackawanna** hook-up, the Supreme Court rejected the union demand for super-protection against mergers. **Employees displaced by merger will continue to receive compensation for four years—a far more liberal provision than any other industry is forced to meet—but will not be entitled to the absolute job freeze they sought.**

If not a comprehensive remedy for all of the railroads' problems, large-scale merger still offers enormous opportunities both for reduction of costs and improvement of services. Successful completion of one or two major mergers will undoubtedly accelerate the whole process, and roads that may be injured initially will find protection through new mergers of their own. With so much purely political opposition to consolidation, the railroads cannot afford to weaken their position by internal squabbles, and management and stockholders alike should encourage all sound mergers.

It is not too far-fetched to believe that this development, along with allied physical improvements in yards and track, could prove to be the major salvation of the railroads.

An Attack On Featherbedding

► The railroads initiated, last year, their most vigorous assault upon the outmoded work rules dating back to 1922, and have a good chance of winning substantial modification of these wasteful practices. After the carriers and the unions reached their expected impasse, a nine-man "fact-finding" commission was appointed by former President Eisenhower to conduct hearings, now in process, and to report its recommendations before the end of the year. The commission's findings will be merely advisory, not binding, but as this will be the highest level study of the subject that has been made they

Statistical Position of Leading Railroads (Continued)

	Gross Revenues 1st 4 months 1960 (Millions)	Gross Revenues 1st 4 months 1961 (Millions)	Percentage Change %	Operating Ratio Full Year 1960	Operating Ratio 1st 4 Months 1961	Net Per Share * Full Year 1960	Net Per Share * 1st 4 Months 1961	Indicated Div. 1961†	Recent Price	Div. Yield
Missouri-Kan.-Tex.	$ 18.3	$ 18.0	— 1.6%	75.6%	74.2%	$ [d]2.16	$ .01[3]	$ —	4	—%
Missouri Pacific "A"	98.3	93.5	— 4.9	76.7	75.0	6.32	1.12	2.40	39	6.1
New York Central	235.1	188.0	—20.0	84.2	93.5	.16	[d]3.43	—	17	—
N. Y., Chicago & St. Louis	51.7	40.1	—22.3	71.7	77.8	2.87	.55	2.00	37	5.4
N. Y., N. H. & Hart.	46.4	40.8	—12.0	90.3	100.7	[d]15.90	[d]7.95	—	3	—
Norfolk & Western	84.4	74.2	—12.0	59.7	59.7	8.15	2.08	5.00	105	4.7
Northern Pacific	55.7	49.3	—11.4	84.5	93.9	3.10	.06	2.20	43	5.1
Pennsylvania	308.3	251.0	—18.5	82.8	88.2	[d].59	[d]1.21	.25	13	1.9
Reading	38.0	30.6	—16.8	83.3	96.1	[d]1.17	[d]4.54	—	8	—
St. Louis-San Francisco	43.7	39.7	— 9.2	78.5	80.6	2.61	.14	1.00	17	5.8
Seaboard Air Line	56.5	52.9	— 6.4	78.7	79.2	3.10	.66	1.60	28	5.7
Southern Pacific Sys.	222.7	206.0	— 7.5	79.1	78.5	1.75	.52	1.12	23	4.8
Southern Railway	89.7	82.2	— 8.3	70.0	74.0	4.31	.84	2.80	54	5.1
Union Pacific	160.9	151.0	— 6.5	72.8	75.0	2.73	.77	1.60	32	5.0
Western Pacific	17.1	16.5	— 3.0	79.7	77.1	2.21	.56	1.00	25	4.0

*—Before funds.
†—Based on latest dividend reports.
d—Deficit.

1—5 months to May 31.
2—Delaware & Huson R. R.
3—3 months to March 31.

Missouri Pacific 'A': speculative but interesting. Substantial concentrated holdings in both classes of stock. **C2**

New York Central: the problem child of the industry. Salvation must depend upon some successful major "deal". **C4**

New York, Chicago & St. Louis: sensitive to heavy industry fluctuations but enjoys low costs. Merger with Norfolk road should not be long delayed. **B2**

New Haven: road may escape bankruptcy if New England states cut taxes, aid passenger services, but stock essentially a gamble. **D4**

Norfolk & Western: the strongest eastern carrier. **A1**

Northern Pacific: enjoys well diversified traffic, large oil income. Merger prospects also enhance stock. **B1**

Pennsylvania: only an unusual run of luck could really restore this large road. **C2**

Reading: marginal road which will probably eventually be absorbed into C. & O.-B. & O. system. **D2**

St. Louis-San Francisco: half ownership of land company adds speculative interest to Frisco's mediocre rail situation. **C2**

Seaboard Air Line: scheduled to exchange share-for-share into Coast Line-Seaboard merger. Prospects favorable. **B1**

Southern Pacific: well-situated transcontinental carrier, has trucking and pipe line affiliates. **B2**

Southern Railway: awaits I.C.C. approval for acquisition of Central of Georgia and might also acquire L. & N. **B2**

Union Pacific: substantial outside income enhances excellent rail position. **A2**

Western Pacific: strategic bridge line is object of control contest among larger neighboring roads. **B2**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earning trend. 3—Earnings up from the lows. 4—Lower earnings trend.

should carry considerable weight. Although the Kennedy administration's debt to organized labor gives it a natural bias, it is difficult to believe that the radically changed conditions on the railroads over a forty-year period will not receive some recognition.

The featherbedding practices are most vividly illustrated by the presence of "firemen" on diesel locomotives without fires, but numerous other unrealistic rules are also in dispute. These include the arbitrary distinction between road and yard limits and specification of as short a distance as 100 miles as a day's work.

It is only to be hoped that railroad management, if it does win some important changes, will not again tie itself to any rigid pattern that will block continued progress in the future. The railroads are more readily adaptable to complete automation than any other form of transportation aside from the pipe lines, and if a new work rule freeze is accepted in 1962 the relief granted may be only temporary as the 1922 error is repeated.

Reacceleration Of Piggyback

► Of more immediate import than most of the foregoing topics is the recent resumption of the rapid growth of piggyback—the movement of loaded trailers or containers on railroad flat cars. After its sharp advance during 1960 piggyback loadings relaxed during the opening months of the present year to a pace just even with its year-earlier level. Recently, however, piggyback has resumed its sharp climb and is currently running 12% above June, 1960, and a whopping 45% above loadings of only two years ago. At least one tangible sign of revolutionary progress on the rails!

With piggyback rapidly changing from a mere plus factor to a major traffic source, the truckers are becoming frightened. A few assaults against the railroads with firearms and hurled acid may be dismissed as the work of crackpots, but Labor Czar Hoffa has attacked in more characteristic fashion by levying a $5 fee on every trailer shipped by rail, to become effective next February. Although common carrier truckers in the Middle West acceded to this gentle imposition, they are not too happy about it, as all forms of trucking are extremely competitive and such an artificial charge may simply drive shippers to private or contract trucking. The railroads are, of course, equally willing to handle the trailers of any owner. The I.C.C. has, in fact, just approved piggyback Plans 3 and 4, under which shippers own the trailers and own both trailers and flat cars. The latter plan is expected to appeal to large freight forwarders, like **U.S. Freight**, in particular.

Hoffa's proposed $5 assessment approaches outright extortion so closely that a bill has been introduced in the Illinois legislature to make it illegal, and the Teamsters' *(Please turn to page 500)*

WHAT'S BACK OF EARNINGS EVAPORATION FOR MEAT PACKERS?

By RAYMOND E. CHRISTOPHER

- **Who is making money in the meat business — the retailers? — it certainly isn't the packers**
- **Packers turn to streamlining operations — redistribution of plants — diversification in other fields**
- **Companies where the outlook has brightened looking to 1962 — where in the doldrums — those still highly speculative**

THE first half of the current fiscal year (to end October 31) was not a happy period for the meat packers. With one exception earnings fell sharply during the six months ended last April 30. Compared with the first half of fiscal 1960 **Morrell's** earnings were off 90%, **Swift's** were down 55% and **Hormel's** fell 45%. **Cudahy** and **Hygrade** reported deficits. **Amour** managed to limit the decline to less than 20% while **Wilson,** the only packer to show improvement, did so only by comparison with a strike-depressed year-earlier period. A common theme runs through the text of the first half statements with company after company citing unsatisfactory beef margins and lower pork slaughter due to smaller livestock marketings as the reasons for the evaporation of earnings.

Larger Livestock Supplies Ahead

The prospect of larger livestock supplies, however, provides reason to expect the remaining months of 1961 to bring material improvement. Despite the poor first half, some packers may still be able to do better this year than last. In the short run the volume of livestock marketed is probably the most important determinant of earnings. Generally, large supplies of livestock are favorable to the packers and short supplies unfavorable. Wholesale prices of dressed meat are much less volatile than livestock prices. **When livestock marketings fall raw material prices usually advance faster than do meat prices. As packer's margins are narrow at best, earnings are apt to fall precipitously or disappear completely.**

The first half of 1961 continued a trend that started about mid-1960 when, because of a small spring pig crop, hog marketing turned sharply down and prices rose. Hog slaughter was off about 14% from September through December, 1960, and about 10% lower during the early months of this year but with month-to-month comparisons growing more favorable. In mid-June, production finally pulled 1% ahead of year earlier rates. A bumper spring pig crop 7% larger than last year's will come to market during the late summer, fall, and early winter.

► **The coming fall crop is forecast as 3% larger than last fall's. Pork supplies should be ample through late winter, spring and early summer of next year.**

► The outlook for beef operations is also more favorable. While cattle slaughter has been slightly above year-earlier rates since a year ago last May, prices have held fairly steady and the spread between packer's costs and wholesale meat prices has been narrow. A moderate pickup in cattle slaughter appears likely during the balance of the year with prices expected to hold at about the current level. Larger volume at steady prices should bring the packers somewhat wider margins.

Favorable Cattle and Hog Conditions

Prospects for 1962 and the next few years are also better. Herds have been increasing for three years, and cattle are at all-time record numbers at slightly under 100 million head. Favorable grain prices and good pasture conditions have encouraged farmers to retain a larger than usual number of cattle in order to rebuild herds reduced by forced marketings during drought conditions several years ago. While herds are expected to continue to expand for the next few years, they have now reached a size where more cattle should be coming to market, assuring the packers a better supply of beef.

● The longer range prospect for pork is more difficult to forecast as hogs can be raised to marketable weight in about six months, making for a much shorter and more abrupt cycle. Currently, the important hog-corn ratio (the number of bushels of corn equal in value to 100 pounds of pork on the hoof) is about 17.5, well above average. Since a ratio of 12-13 is usually considered the breakeven point, the present ratio favors the production of large pig crops. Furthermore, hog production has followed a two-year cycle during most of the postwar years. If the present upward phase of the cycle duplicates the recent past, pork should be in abundant supply at least through next year and into 1963.

Diversification, Brand-name Emphasis and Packaged Foods

Several of the packers have achieved a considerable degree of diversification, although their new lines remain relatively unimportant compared with their traditional meat operations. All, of course, deal in the many non-meat by-products that result from livestock slaughter, and almost all deal in poultry and dairy products. Several process vegetable oilseeds and livestock feeds. **Armour's** sizable chemical division has furnished a majority of that company's earnings in recent years. **Swift's** non-meat activities comprise a $700 million business, making the company one of the leading factors in ice cream, margarine and peanut butter. Some indication of the range of diversification within this industry will be found in the individual company comments.

● In order to upgrade operations, packers have increased their emphasis on processed and packaged meats which are not only more profitable than simple dressed cuts but build brand awareness among consumers. Several process frozen meat and entire meals. **Armour** and **Wilson** have been particularly active in developing pre-packaged foods designed for institutional use. Armour is now introducing the first line of freeze-dried foods to be sold in retail stores. While no one of these factors is of overriding importance in itself, they indicate awareness on management's part of the need to place operations on a more profitable basis.

New Plants Tailored To Changed Methods of Distribution

Only a few years ago most slaughter houses and processing plants were housed in obsolete buildings located in large cities where wages and tax rates were at their highest. Distribution systems set up in the days when independent meat markets were the packer's most important customers and rail-transportation was the principal method of distribution, were still in operation despite the growth of the great supermarket chains with their central buying and the sharp decline in the number of small butcher shops. These vast investments in plant exaggerated the influence of the livestock cycle. When livestock was in good supply, high operating rates allowed the packers to cover fixed costs by a reasonable margin. When, however, supplies were short and high fixed costs were spread over a lower unit volume, earnings suffered drastically. Frequently, managements compounded their difficulties by bidding up the price of scarce livestock in order to use facilities to the fullest. As a result, the packers did a considerable amount of business at little or no profit.

Presently the industry is well along on a program designed to alleviate these conditions. There has been a general exodus from the larger metropolitan centers as packers have relocated plants in the livestock raising areas. Distributions systems are being streamlined to bring them more in line with present day customers' requirements. Large networks of local warehouses are being eliminated as changing distribution patterns and faster transportation methods rendered them obsolete.

Although the industry still has quite a long way to go before it completes this program, some of the effects are already apparent in the better tone of earnings shown by **Wilson, Armour** and **Cudahy.** Continuation of the program will bring additional gains over the years. Completion could bring a double benefit as the elimination of the pressure to spread high fixed costs over the largest possible unit volume enables management to follow a more rational buying policy with emphasis on profit margins rather than quantity.

Swift To Modernize Its Plants

Swift — As the largest meat packer, **Swift** probably has the most to gain from modernization of its plants and distribution methods. While considerable progress has been made thus far, Swift was somewhat tardy in initiating a program of plant improvement, and because of its great size has more

Statistical Data on Leading Meat Packers

	Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	Net Profit Margin 1959	Net Profit Margin 1960	Net Earnings Per Share 1959	Net Earnings Per Share 1960	Cash Earnings Per Share 1960	Indicated Div. Per Share 1961 *	1st 6 Months Earned Per Share 1960	1st 6 Months Earned Per Share 1961	Price Range 1960-61	Recent Price	Div. Yield
ARMOUR & Co. W.C.† '59–$190.0; '60–$198.3	$1,869.8[1]	$1,735.5[1]	.7%	.9%	$2.73[1]	$3.10[1]	$5.45[1]	$1.40	$1.35[2]	$1.15[2]	50⅞-29	48	2.9%
CUDAHY PACKING W.C.† '59–$20.0; '60–$19.6	354.1[1]	340.9[1]	.7	.2	1.43[1]	.24[1]	1.85[1]	—	.33[2]	d.24[2]	14½- 8⅛	11	—
HORMEL, G.A. & Co. W.C.† '59–$28.1; '60–$27.9	401.7[1]	372.2[1]	1.4	1.2	5.11[1]	4.03[1]	5.97[1]	1.40	1.62[2]	.87[2]	39½-30	34	4.1
HYGRADE FOOD PROD. W.C.† '59–$14.1; '60–$16.4	414.2[1]	417.0[1]	.6	.6	4.50[1]	3.54[1]	6.36[1]	1.00[4]	2.41[3]	d.65[3]	37 -25¾	27	3.7
INTERNAT. PACKERS W.C.† '59–$45.7; '60–$44.9	400.2	398.7	2.1	1.5	3.11	1.48	2.00	.80	N.A.	N.A.	22¾-12¾	18	4.4
MORRELL, JOHN & Co. W.C.† '59–$24.4; '60–$30.5	436.3[1]	511.8[1]	1.4	.6	5.68[1]	3.17[1]	6.04[1]	.80[4]	2.04[2]	.18[2]	47⅞-26⅛	31	2.5
SWIFT & Co. W.C.† '59–$219.8; '60–$218.2	2,475.5[1]	2,442.5[1]	.7	.7	3.20[1]	3.09[1]	6.72[1]	1.85	1.54[2]	.69[2]	51½-39½	40	4.6
WILSON & Co. W.C.† '59–$68.1; '60–$65.2	655.5[1]	585.3[1]	1.4	.3	3.88[1]	.53[1]	2.36[1]	1.60	d.48[2]	1.17[2]	49¾-32¾	46	5.1

W.C.—Working capital.
†—In millions of dollars.
*—Based on latest div. rates.
d—Deficit.
NA—Not available.

1—Year ended Oct. 31.
2—6 months ended April 30.
3—24 weeks ended April 15.
4—Plus stock.

Armour & Co.: Second largest packer, derives a majority of earnings from growing chemical division. Improvements in meat operations and planned expansion of chemical interests enhance future prospects. B3

Cudahy Packing has shown material improvement through elimination of unprofitable business. Substantial reduction in expenses expected upon completion of new Omaha plant. C3

Geo. O. Hormel: Concentration on processed meats provides somewhat wider margins. There is only limited trading activity in the stock. B2

Hygrade Food Products: Substantial portion of output consists of processed meat specialties. There are only 684,194 shares outstanding. B2

International Packers has shown considerable improvement in recent years but international nature of business makes the stock more speculative than usual packer issue. C3

John Morrell: With about two-thirds of output consisting of pork products, earnings are unusually sensitive to hog cycle. Larger spring pig crop should bring substantial recovery in profits. C3

Swift & Co.: World's largest meat packer. Because of size and later start, plant improvement program may take longer to show results. B2

Wilson & Co.: Fast growing sporting goods subsidiary and position in special packaged food products enhance future prospects. B1

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earning trend. 3—Earnings up from the lows. 4—Lower earnings trend.

to accomplish than most of its competitors. With the recent raising of $30 million via private placement of its debentures, the company is now in a better position to speed up its modernization program.

About 70% of sales consist of meat and meat products, with dairy products and poultry amounting to an additional 15-20%. Other interests include vegetable oils, agricultural chemicals, adhesives, soap, detergents, livestock feeds and insurance.

First half fiscal 1961 sales and tonnage rose slightly from the like 1960 period, but earnings of $0.69 per share were less than half the $1.54 reported in the like months of last year. Operations should improve during the second half as more ample livestock supplies become available.

Diversification Carried Furthest by Armour

Armour, the second largest meat packer, is a sizable factor in chemicals and pharmaceuticals. Non-meat activities have, in fact, contributed a majority of the company's earnings for a number of years. Armour foods division conducts a general packing business in addition to dealing in dairy products, vegetable oils, and oil products. Armour Chemical Industries embraces a wide range of chemicals, fertilizers, pharmaceuticals, soap, adhesives and other products. **Last year management announced a capital expenditure program that will triple production of fertilizers materials by the end of 1962. On completion of this program investment in the chemical division will exceed that in food processing.**

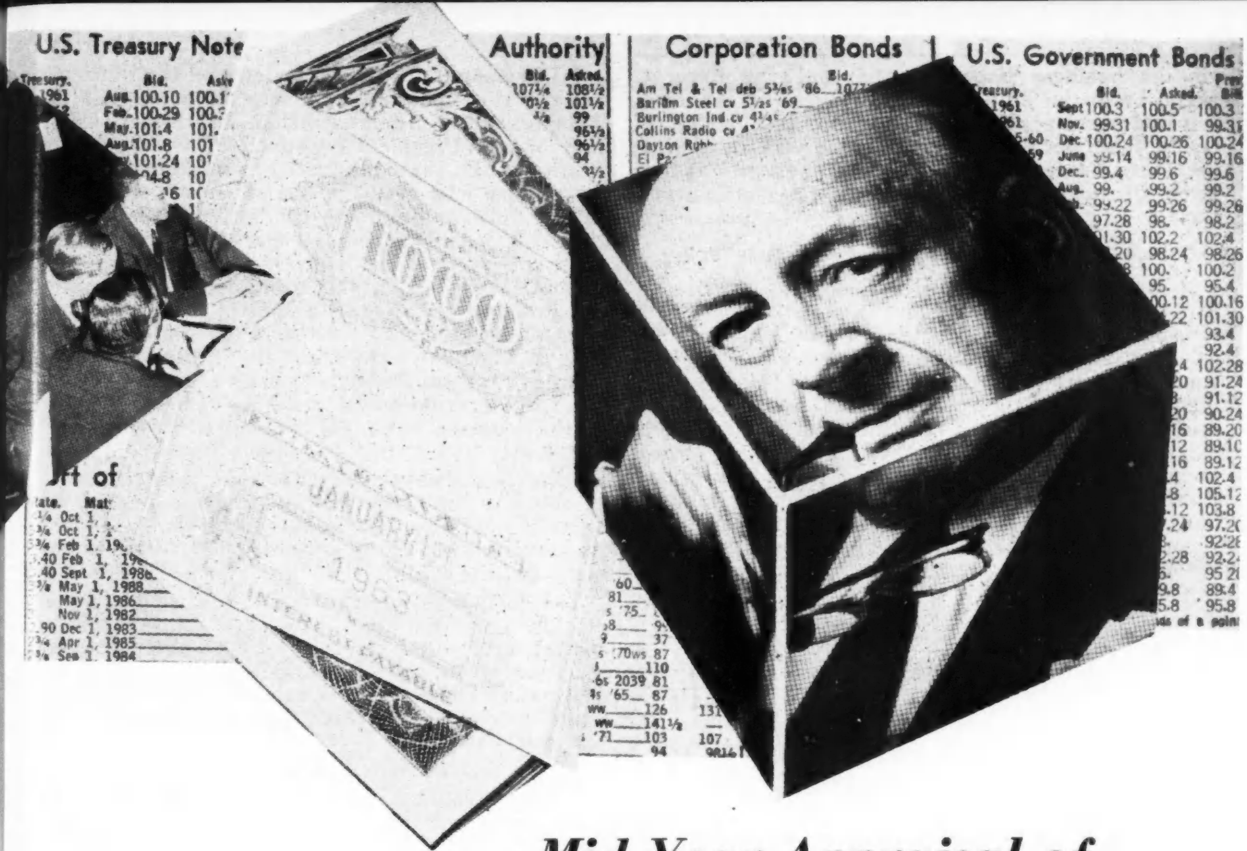
While Armour was enlarging its stake in chemicals packing activities have not been neglected. Under the leadership of President Prince, emphasis has been placed on profits rather than volume. Obsolete and redundant plants have been eliminated or replaced with up-to-date properties and distribution facilities have been streamlined. Further improvement may be expected as this program continues.

The improvement in operations was already apparent during the first half of 1961. With earnings off less than 19%, Armour made by far the best showing among the major packers. Larger livestock supplies should lift full-year earnings to the highest level in many years.

Cash dividends, resumed in 1960 after an eleven-year lapse, may be supplemented from time to time by distributions of the stock of International Packers.

Wilson Record Reflects Strike Recovery

Wilson is one of the few packers to do better in the first half of 1961 *(Please turn to page 501)*



Mid-Year Appraisal of...

BOND MARKET UNDER SHADOW OF BIG GOVERNMENT FINANCING AHEAD

By ELWOOD OWEN

- **Mixed trends for industrials, rails, utilities and tax-exempts.**
- **Where uncertainty as to money rates affects marketability of new issues . . . current inventories of tax-exempts alone reported close to 500 million dollars**
- **The short and longer term trend of the bond market . . . where $555 billion G.N.P. level would be a price depressant . . . the conflict between F.R.B. and Administration's pressure for lower money rates.**

THE first half of 1961 has, for such a brief period, witnessed unusually significant—and conflicting—money market developments. These include the efforts of the new Administration to restrain long-term interest rates, impinging upon the traditional position of the Federal Reserve Board; the inception of a new campaign to check the gold exodus; the diverse trends of different segments of the bond market; and the conservative policy of the commercial banks which places them in a relatively liquid current position. The report of the non-official Commission on Money and Credit has also just been published and widely disseminated, and while this is less than startling in any of its disclosures, it is bound to stimulate renewed discussion of several major aspects of our fiscal policy.

Martin Points Out Limitations of Monetary Policy

Earlier this year Federal Reserve Board Chairman Martin was under heavy pressure from the White House to ease credit by the reduction of long-term money rates as a measure to end the recession and speed the business recovery. Particular concern was expressed over the high level of unemployment, which had reached 7%, contrasting with the Administration's view of a maximum tolerable level of around 4%. While no one will defend high unemployment, the role of easy money in controlling this condition is far from clear. **In testifying before a Congressional Committee in reply to a question on ths point, Chairman Martin stated: "I think you are wrong in relating monetary policy and unemployment. To put people back to work we've got to have more than cheap money." While commending the Administration for the retraining of unemployed workers, extending special aid to depressed areas and other measures, Mr. Martin held in his testimony that interest rates would rise automatic-**

ally as business improved and that the Reserve would be unable to halt such a movement. At most it could merely retard the advance if a policy of credit ease were firmly maintained. He reiterated that interest rates should not be "pegged" at low levels to provide cheap money, as was done during the postwar period.

Dubious Effect of Abandonment of "Bills Only" Policy

● Mr. Martin did, however, cooperate with the Administration in changing the standing policy of the Federal Reserve System, which had been to limit its purchases and sales of Government obligations to short-term paper. In order to stimulate business the F.R.B. consented to buy some intermediate and long-term Governments as well, and this policy was pursued for several weeks, although it has since tapered off. The result was a wider than usual spread between long-term Governments and long-term corporates. Any resultant benefit to the corporate market, however, in terms of reducing rates and promoting new financing, has been quite problematical.

Corporate Bonds

Moody Rating		Price	Yield	No. Times Charges Earned
Aaa	American Tel. & Tel. Deb. 4¾s 1992	100¾	4.72%	5.7
Aaa	Kansas City Power & Light 1st Mtg. 5s 1990	104½	4.71	7.4
Aaa	Pacific Tel. & Tel. Deb 5⅛s 1980	104½	4.77	10.6
Aa	Gulf States Utilities 1st Mtg. 5¼s 1989	104⅝	4.95	5.9
Aa	Metropolitan Edison Co. 1st Mtg. 4⅞s 1987	101⅞	4.75	5.9
Aa	National Fuel Gas Co. Deb. 4⅞s 1986	101	4.80	5.2
Aa	Ohio Edison Co. 1st Mtg. 4¾s 1991	100	4.75	8.7
Aa	Pacific Gas & Elec. Co. 1st & Ref. Mtg. 4⅝s 1992	100	4.63	5.9
Aa	Pub. Serv. Elec. & Gas Co. 1st & Ref. Mtg. 4¾s 1990	100	4.75	4.8
Aa	U. S. Steel Corp. S. F. Deb. 4½s 1986	99	4.57	34.9

Tax-Exempt Municipal Bonds

Moody Rating		Price	Yield
—	Western Kentucky Turnpike Authority 4.85s 2000	99½	4.87%
—	Illinois Toll Road 4¾s 1998	106½	4.39
A	Port of New York Authority 3⅝s 1989	98¾	3.70
—	New York State Power Authority 4.20s 2006	106	3.91
—	Triborough Bridge & Tunnel Authority 4s 1985	104¼	3.73
Aa	State of California 4s 1985 (Gen. obligation)	105⅝	3.65
A	San Diego Calif. Sewer Rev. 3.80s 1981	100	3.80
Aa	Delaware 3.20s 1981 (Gen. obligation)	97⅞	3.35
A	Georgia State Highway Authority 3¾s 1978	100⅝	3.70
Aa	Maryland State Roads Commission 3⅜s 1976	99¾	3.40
A	New York City 3.60s 1986 (Gen. obligation)	98⅜	3.70

● Obviously, Mr. Martin's views on the impact of money rates upon inflation may be somewhat displeasing to the Administration. Dr. Heller, Chairman of the President's Council of Economic Advisors, thinks that automation will eliminate some ten million jobs over the next five years, while six million workers simultaneously enter the labor market. This would raise a serious problem of unemployment even if business were to remain at a normal level, and in the Administration's opinion justifies unusual efforts to control money markets. Incidentally, Canada, with a much higher current rate of unemployment than the United States, is also having a spirited debate upon the same subject, and the Government is trying to remove the head of the national bank, Mr. James E. Coyne.

● While the Federal Reserve System in this country has always enjoyed a substantial degree of autonomy, this would be reduced by one of the recommendations of the Monetary Commission in its recent report (fully covered in Mr. Jack Bame's story in this issue).

This body has suggested that the chairman's post, now held by Martin, should be a four-year affair corresponding with the term of each new President, in place of its present long-term tenure. Such a change would permit each incoming President to name as chairman a man more sympathetic with his own views.

Limitations Upon Inflation

The Government is, of course, seeking other means than cheap money to stimulate industrial activity, and may feel that an out-and-out fight with the F.R.B. would not be worthwhile at this time, since Congress might not back up the Administration. Among other measures, it has been suggested that the normal income tax rate might be changed from time to time to stimulate or retard business. Of course, the big expenditures for road-building and housing (with public works in the background) are also direct means of stimulating the economy.

Mr. Martin is perhaps more concerned about inflation than unemployment. If the business recovery should become too rampant and the stock market should again "splurge", it is possible that he would try to put on the brakes by raising money rates — but this probably would not be for some time.

The outlook for continued inflation is not as definite as may be generally assumed. While annual wage increases and recurring Government deficits (about $2 billion for the year just ended and possibly $4-5 billion for the current year) are important factors, other strong forces are operating in favor of deflation or price cuts. These include excess production capacity (which automation may further increase), competition from cheap labor abroad, and a continuing squeeze on profit margins.

Heavy Corporate Financing Has Little Effect On Rates

In any event, long-term money rates have thus far held at about the level of the beginning of the year, despite the impact of increasing business activity and heavy corporate financing.

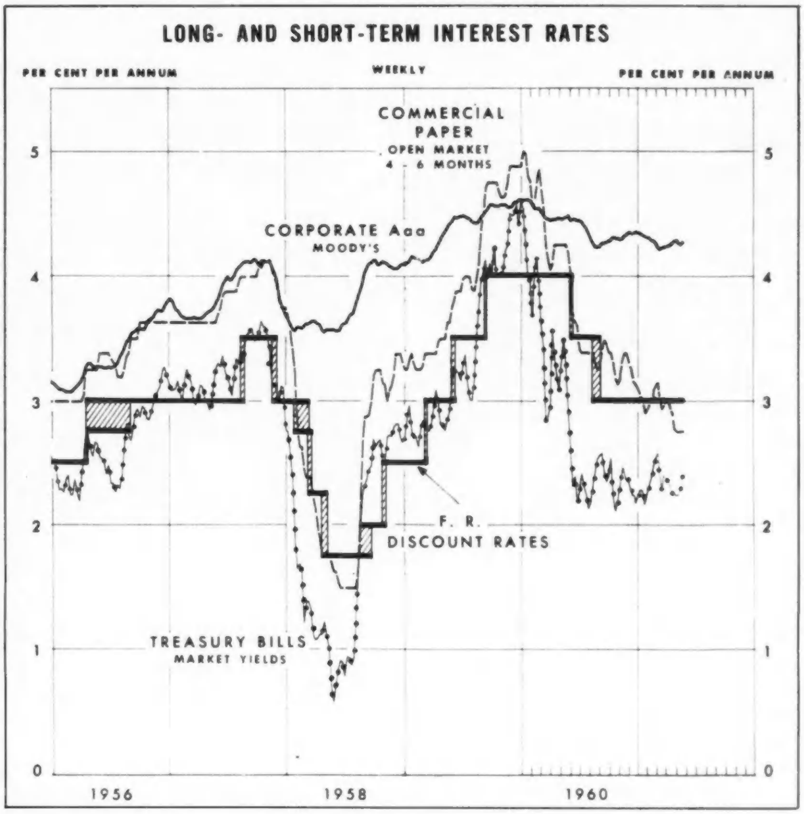
► **Electric and gas utilities, in the month of June alone, raised $425 million from new money financing.**

► **There were also the $250 million American Telephone & Telegraph issue, two $60 million Union Oil of California issues, and the Kentucky Turn-**

pike Authority's $118 million offering, among others.

The Telephone bonds, which went rather slowly, were priced to yield 4.68% and carried a novel ten-year non-callable feature. The 12 electric and gas utility bond offerings were sold at yields ranging between 4.70% and 3.55% (the latter on a Baa-rated pipeline issue). About one-third of the issues sold readily, while the remainder moved at varying degrees of slowness. The second $50 million TVA bond offering got off to a better start than the first such offering made last year.

The calendar for corporate offerings in July is much less crowded, particularly in the opening holiday week. Thus far only one big issue seems scheduled — the $200 million Shell Oil debentures, around July 19th. A fairly heavy utility backlog is still likely to appear, however, during the balance of 1961.



LONG- AND SHORT-TERM INTEREST RATES

● Naturally this plethora of new issues has had a depressing effect on prices of bonds already outstanding. As of June 29th utility bonds were nearer their 1961 lows than their highs, as indicated by the Moody bond yield:

Moody Rating	*June 29*	*1961 Range*
Aaa	4.34%	4.37-4.21%
Aa	4.46	4.49-4.28
A	4.58	4.65-4.45
Baa	4.80	4.82-4.71
Average	4.55	4.58-4.42

● Utility bond prices began to give a somewhat better account of themselves, however, around the end of June, when a large proposed issue of Texas Eastern Transmission was indefinitely postponed. Progress was also made in reducing the unsold backlog of Telephone and Con Edison bonds, while the TVA issue apparently did somewhat better than anticipated.

● On the other hand, rail bonds have recently been touching new lows, especially those of New York Central, Erie, and other border-line roads. The heavy deficit reported by the New York Central and Pennsylvania Railroads this year, and the default by the New Haven on some of its mortgage bond interest, were discouraging factors. But considering the almost record-breaking amount of corporate debt financing, the bond market has not given too bad an account of itself.

Heavy Public Financing Ahead Narrows Government-Corporate Rate Spread

► The limelight is currently focused, however, on the Government rather than the corporate market. owing to the Fed's earlier buying program yields on long-term Governments have been held to about $3\frac{3}{4}\%$, compared with about $4\frac{3}{4}\%$, for good corporates — a spread of a full 1% contrasted with a historical average of less than one-half of one percent. The spread is now tending to narrow, with long-term Governments dropping in price to a 3.90-4% basis.

During the next few weeks the Government must offer some $23 billion of new securities (in addition to its regular weekly bill offerings), over half of which will be to pay off certificates, notes and bonds maturing in July and August.

● Among the Government bond houses the opinion has been expressed that the Treasury will offer a big one-year issue to take care of the greater part of this refunding, together with a smaller five to seven-year issue. In order to attract speculative interest, it seems likely that holders of the maturing issues will be given rights to subscribe to the new one. No doubt the Federal Reserve will also be called on to help, if necessary. A coupon of $3\frac{1}{8}$ for the one-year issue and a rate of $3\frac{7}{8}$-$4\frac{1}{8}\%$ for the intermediate term financing have been suggested.

● Five advisory committees representing various types of institutional investors have been called to Washington to consider the handling of this heavy financing. Thus, while the Government market is in reasonably good shape, sentiment seems somewhat on the bearish side.

Tax-Exempt Market Also Sagging

● The municipal section of the bond market has also been plagued by heavy offerings of new issues, including turnpikes, and except for a temporary rally in May the trend of prices has been steadily lower since the end of February. As of June 26th, the municipal bond yield index showed an average yield for 20-year bonds of about 3.62%, the highest in over a year. Current *(Please turn to page 502)*

FOR PROFIT AND INCOME

A Buy

The offering of Ford Motor shares from the holdings of the Ford Foundation was readily absorbed at 80½. At this writing, in a "dead" market, the stock is at 81⅜, off nearly 10 points from the year's high of 91⅛. We repeat the following observations: Ford earnings for 1961 probably will dip only 10% or so to around $7.00 a share, which will be by far the best showing in the industry. Ford has increased its share of the market materially this year. The general business revival should mean earnings above $8.00 a share in 1962—and possibly nearer $9.00 for a new record. Ford is cash rich. The $3.30 dividend ($3.00 regular) should be increased some time in 1962. A split of the stock is possible. In a market in which the Industrial Average is selling around 20 times 1961 earnings, we still think 11.6 times for Ford is quite reasonable and that the stock could well rise above 100.

Inside The Market

Stock groups performing better than the market at this writing are principally automobile trucks, coal, drugs, electrical equipment and appliances, finance companies, most food groups, department stores, mail order, bank stocks, oils, textiles and tires. Groups lagging at this time include air transport, aluminum, building materials, containers, machinery, metal fabricating, liquor, paper, steels and sulphur.

Textiles

Stocks of textile makers have been given a lift by price increases announced on worsteds and on worsted-mohair blends. The industry continues to face severe import competition, especially from Japanese cotton goods, but the Government probably will have to do something about this. More important, the textile cycle is turning upward and profits a year hence should be much above present depressed levels. Stevens is the best-acting stock in the group, but, at 29½, is right up around the year's high. The company is among the leaders in the industry and is

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Caterpillar Tractor	4 mos. Apr. 30	$ .59	$ .46
Cincinnati Milling Machine	12 weeks Mar. 25	.52	.20
United Carbon Co.	Quar. Mar. 31	1.25	1.16
Kern County Land Co.	Quar. Mar. 31	.94	.82
Mead Johnson & Co.	Quar. Mar. 31	1.83	1.22
Panhandle Eastern Pipe Line	Quar. Mar. 31	1.01	.90
Singer Mfg. Co.	Quar. Mar. 31	1.51	1.30
Texas Utilities Co.	12 mos. April 30	3.14	2.96
American Stores Co.	52 weeks Apr. 1	5.72	4.88
Hunt Foods & Industries	9 mos. Mar. 31	2.05	1.20

broadly diversified. Burlington Industries is the largest company and is equally diversified. Because of a recent dividend cut, the stock is relatively depressed at 19. It could well sell 20%-30% higher within 12 months. The management has a record of gearing dividends to earnings—for example, two dividend boosts in 1959—while Stevens has for some years been "wedded" to a $1.50 rate.

Strong Stocks

Individual stocks reflecting above-average demand in recent trading sessions to this writing include: Argo Oil, American Bank Note, Addressograph, Avco, Boeing, Bristol-Myers, Bausch & Lomb, Firestone Tire, Fruehauf Trailer, General American Transportation, Genesco, Gimbel Bros., Lockheed Aircraft, Skelly Oil, Penney, Sears Roebuck, U.S. Freight and U.S. Industries.

Soft

Stocks performing worse than the market at this time include Bendix, Continental Oil, McCall, Packard Bell, Garrett, General Baking, Shell Transport, International Shoe, Lehigh Portland Cement, Panhandle Eastern Pipeline, General Portland Cement, Montgomery Ward, Suburban Gas, Thompson-Ramo, Pittsburgh Plate Glass, Royal Dutch, Texas Eastern Transmission, United Biscuit, Bush Terminal, Twentieth Century-Fox, Shattuck, Divco Wayne, Fenestra, Joy Mfg., West Virginia Pulp and Van Norman.

Light Up

Evidently the lung-cancer scare has been long forgotten and more people are lighting up cigarettes than ever before. Cigarette output rose about 2% to a new peak in 12 months through June 30, as estimated by the Department of Agriculture. It forecast a continuing upward trend, based on increases in the smoking-age population and rising personal income. Reynolds Tobacco continues to set the pace in the industry. The company will get important aid from its large new plant, via economies in production costs and especially from elimination of previous overtime wages. Profit this year could be nearer $6.00 a share than the $5.40-$5.60 heretofore estimated. It was $5.21 last year. The stock is at a new all-time high of 126 at this writing. What to do? Those who bought it on our advice at much lower levels have an excellent holding and should stay with it. There is much less to be said for new buying—even though the stock, in the vicinity of 21-22 times earnings, has a better claim to growth, as demonstrated over the last six years, than many so-called growth stocks which are priced at 30 to 50 times earnings and even more in some cases.

Building Stocks

Moderately increased outlays for building are forecast for 1961, despite the present lag in single-family home building. The biggest increases this year, and for some time to come, will be in Federally financed or subsidized public works, including road building. This should particularly benefit the makers of cement—but these stocks are among the worst performers in the current market. They are rather high on likely 1961 earnings. Perhaps they are still suffering from earlier market over-exploitation. The industry has considerable over-capacity. The stocks could go lower before they go higher.

Do insiders act on advance knowledge of company development? Let us not ask silly questions. For several days prior to the recent cut in the dividend of Lehigh Portland Cement, the stock made a succession of new lows. Who was selling? Certainly outsiders had not been expecting bad dividend news. Their selling came after the news, depressing the stock further. Is it now at buying levels? We do not think so.

Jersey

Standard Oil (New Jersey) is the world's largest petroleum enterprise. If its vast foreign interests, on top of huge U.S. interests, are advantageous, one would not imagine so from looking at the profit record. In nine years through 1960—years of major outlays for property expansion and improvement—net income had a rise of about 30%. It reached a peak in 1956 at $4.11 a share. It might be $3.30-$3.40 this year against 1960's $3.18. The stock stands at 44 in a 1957-1961 range of 68½-38. It yields 5% on a $2.25 dividend rate. Many people still think well of this issue. In view of the foreign risks involved, we think there are better oils.

Phillips

The bulk of the production of Phillips Petroleum is domestic, although it has foreign interests; and its U.S. crude output is close to refinery needs. The company is strong in natural gas and petrochemicals. In nine years through 1960 the growth of net income was about 66%, well over twice that of Jersey. For a time, share earnings were held back by debenture conversions, but the bulk of this is out of the way. In 1960 there were new peaks in net income and share earnings, the latter at $3.29, up from 1959's $3.05. Another new record is indicated for 1961, with profit possibly in the area of $3.90-$4.00 a share. As would be expected, the stock remains among the best performers in the oil group and in the market. Close to its earlier 1961 all-time high, it stands at 59½, yielding about 2.9% on a $1.70 dividend. The record explains why institutional funds probably will continue to prefer Philips over Jersey when they do any new buying. END

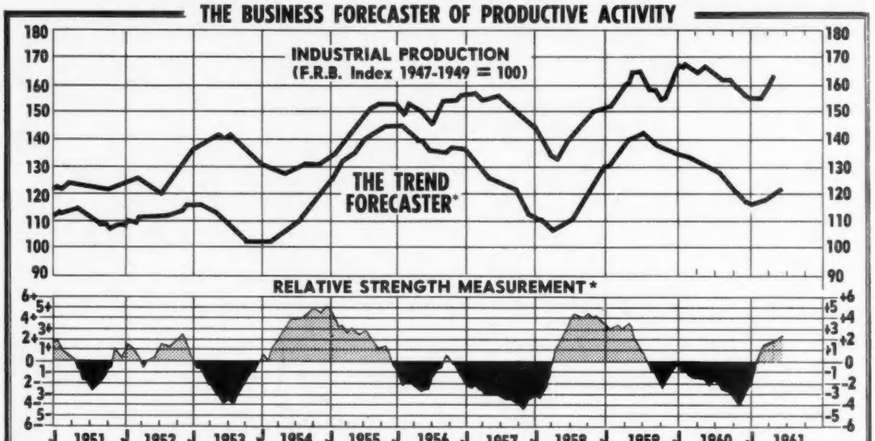
DECREASES SHOW IN RECENT EARNINGS REPORTS

		1961	1960
Emerson Radio & Phono	26 weeks Apr. 29	$ .30	$ .51
Spalding (A. G.) & Bros.	Quar. Apr. 30	.31	.46
West Virginia Pulp & Paper	Quar. Apr. 30	.30	.68
Pacific Finance Corp.	Quar. Mar. 31	.66	1.02
Raybestos-Manhattan, Inc.	Quar. Mar. 31	1.09	1.56
Tennessee Corp.	Quar. Mar. 31	.73	.80
Gulf States Utilities	12 mos. Apr. 30	1.26	1.42
Montgomery Ward & Co.	Quar. May 3	.11	.14
Addressograph-Multigraph	9 mos. Apr. 30	1.42	1.48
Associated Dry Goods	Quar. Apr. 29	.70	.78

the Business

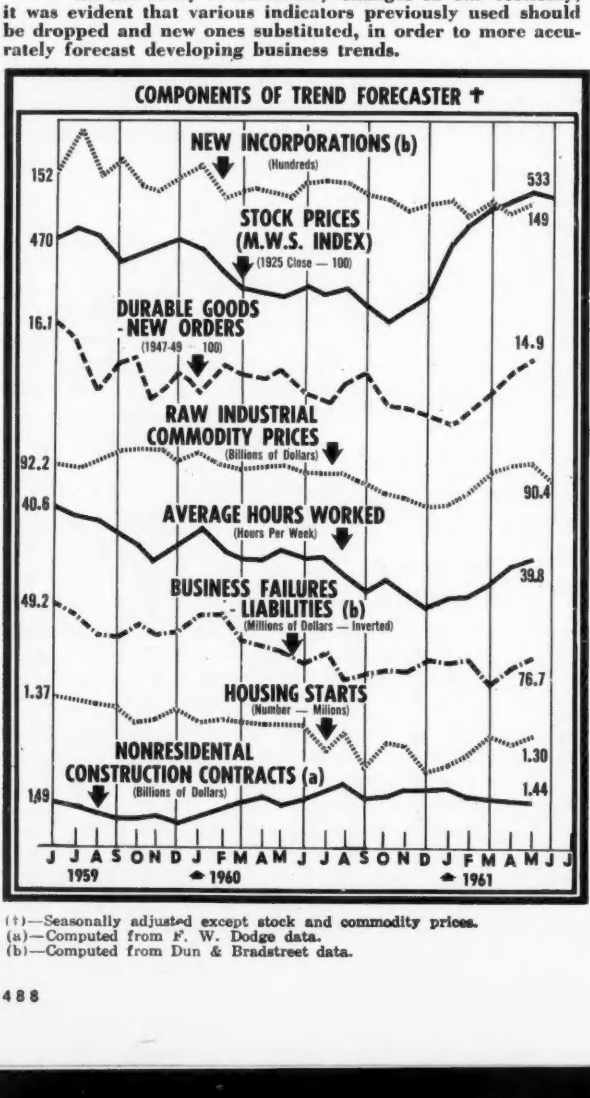
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

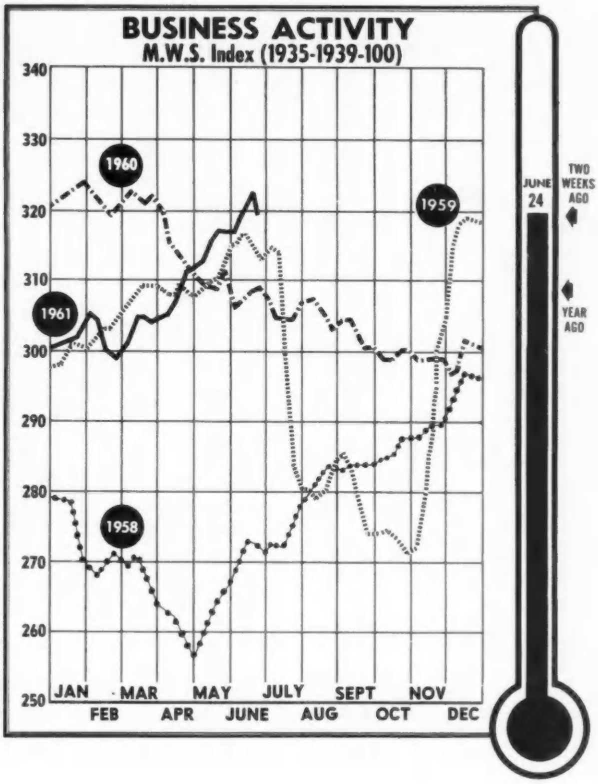
We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

The components of the Trend Forecaster are still moving upward on balance and the Forecaster itself is continuing the gradual advance that started in February. In the latest month, five of the leading indicators were higher while three receded a bit. Month-to-month gains were chalked up by new orders for durable goods, housing starts, hours worked, new incorporations and business failures (inverted), while declines took place in nonresidential construction contract awards, stock prices and raw industrial commodity prices.

Most of the indicators remain in an intermediate upward trend and, as a result, the Relative Strength Measurement has risen further. According to the preliminary figures, it reached the plus 2.4 level in June and is now well into the favorable zone. However, the pace of advance has been moderate and the measure has not yet reached the significant plus 3 level. Although the measure may pick up speed this fall, on the basis of its recent action, it is signaling a leisurely rise in business in the months ahead, rather than a sharp advance.

s Analyst



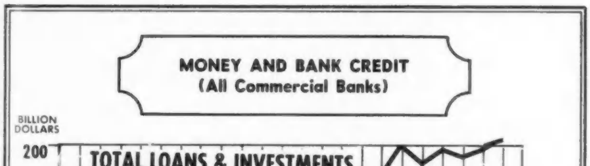
CONCLUSIONS IN BRIEF

PRODUCTION—Summer slowdown now exerting visible effect on business activity. Auto and steel output to decline markedly in July but sharp snap-back in these industries and further gains for over-all production are to be expected in succeeding months.

TRADE — Some improvement appearing in consumer spending for both soft goods and durables, although increases are moderate. Higher incomes, record savings and a decreased debt burden should keep consumer demand trending upward at least through the fall.

MONEY & CREDIT—Bond yields and interest rates still rising, as large corporate bond flotations and imminence of heavy Federal debt financing exert near-term pressure on rate structure. High savings and sluggish demand for mortgage money are counterbalancing factors, although some further increase in yields seems likely.

COMMODITIES—Sensitive industrial raw material prices moving up again while mixed trends prevail for manufactured goods. Resumption of business recovery should make for greater price firmness this fall although no sharp price rise appears to be in prospect.



*Demand deposits of all banks plus currency outside the banks

THE recovery is losing some of its upward momentum as business enters the summer doldrums, and industries that had outpaced the upturn pause for a breather. Underlying conditions, however, are continuing to improve, and confidence in a resumption of the upturn this fall remains high.

The month of July, meanwhile, is not apt to set any records for activity. Two of our major industries, autos and steel, have slackened off a bit in recent weeks and a further slowdown is in prospect. Auto output has dipped slightly after reaching a peak early in June, and the seasonal shut-down will take place later this month as the industry prepares for an earlier-than-usual introduction of new models. But the indicated drop will be succeeded by an advance in August and September that will be well above seasonal expectations. Steel, which counts the car makers as its biggest customer, has also experienced a slow decline in output from the highs of late May which were moderately above the level of consumption. Here, too, July will be a slow period while industry observes its usual summer vacation schedules, but orders already received for August delivery point to a sharp recovery in that month.

While these two sectors are marking time, strength in other areas is taking up the slack and keeping over-all business activity on a slow upward course. At the same time, the continued improvement in basic demand factors is providing the potential for a stronger upturn this fall. The question

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	May	164	160	167
Durable Goods Mfr.	1947-'9-100	May	163	158	166
Nondurable Goods Mfr.	1947-'9-100	May	162	159	161
Mining	1947-'9-100	May	128	128	127
RETAIL SALES*	$ Billions	May	18.1	17.9	18.4
Durable Goods	$ Billions	May	5.6	5.4	6.0
Nondurable Goods	$ Billions	May	12.5	12.5	12.4
Dep't Store Sales	1947-'9-100	May	144	148	141
MANUFACTURERS'					
New Orders—Total*	$ Billions	May	31.1	30.4	30.5
Durable Goods	$ Billions	May	14.9	14.4	14.7
Nondurable Goods	$ Billions	May	16.2	16.1	15.8
Shipments*	$ Billions	May	30.7	30.1	31.0
Durable Goods	$ Billions	May	14.6	14.1	15.1
Nondurable Goods	$ Billions	May	16.1	16.0	15.9
BUSINESS INVENTORIES, END. MO.*	$ Billions	May	91.3	91.2	93.2
Manufacturers'	$ Billions	May	53.4	53.4	55.0
Wholesalers'	$ Billions	May	13.4	13.4	13.1
Retailers'	$ Billions	May	24.5	24.4	25.2
Dept. Store Stocks	1947-'9-100	Apr.	162	161	158
CONSTRUCTION TOTAL—†	$ Billions	June	56.5	55.7	55.2
Private	$ Billions	June	39.1	38.6	39.1
Residential	$ Billions	June	21.7	21.1	22.4
All Other	$ Billions	June	17.4	17.5	16.7
Housing Starts*—a	Thousands	May	1298	1200	1333
Contract Awards, Residential—b	$ Millions	May	1554	1454	1453
All Other—b	$ Millions	May	1948	1843	1884
EMPLOYMENT					
Total Civilian	Millions	May	66.8	65.7	66.3
Non-farm*	Millions	May	52.7	52.5	53.1
Government*	Millions	May	8.7	8.7	8.4
Trade*	Millions	May	11.6	11.5	11.7
Factory*	Millions	May	11.8	11.6	12.3
Hours Worked*	Hours	May	39.8	39.6	40.1
Hourly Earnings	Dollars	May	2.34	2.33	2.29
Weekly Earnings	Dollars	May	92.66	91.57	91.37
PERSONAL INCOME*	$ Billions	May	414	410	405
Wages & Salaries	$ Billions	May	277	274	274
Proprietors' Incomes	$ Billions	May	62	61	61
Interest & Dividends	$ Billions	May	42	42	40
Transfer Payments	$ Billions	May	33	32	28
Farm Income	$ Billions	May	17	17	16
CONSUMER PRICES	1947-'9-100	May	127.4	127.5	126.3
Food	1947-'9-100	May	120.7	121.2	119.7
Clothing	1947-'9-100	May	109.6	109.5	108.9
Housing	1947-'9-100	May	132.2	132.3	131.2
MONEY & CREDIT					
All Demand Deposits*—u	$ Billions	May	112.3	113.3	109.3
Bank Debits*—g	$ Billions	May	103.0	97.5	98.0
Business Loans Outstanding—c, u	$ Billions	May	31.5	31.5	31.4
Instalment Credit Extended*—u	$ Billions	May	14.0	3.9	4.3
Instalment Credit Repaid*—u	$ Billions	May	4.0	4.0	3.9
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	May	6.5	5.1	6.5
Budget Expenditures	$ Billions	May	7.2	6.5	6.1
Defense Expenditures	$ Billions	May	4.0	3.8	3.6
Surplus (Def) cum from 7/1	$ Billions	May	(6.7)	(6.0)	(3.1)

PRESENT POSITION AND OUTLOOK

remains, however, as to whether this potential will trigger a substantial economic expansion or whether existing imbalances will be powerful enough to slow the pace of recovery. The answer to this question will depend to a considerable extent on psychological factors that are difficult to assess now, but examination of emerging trends should enable us to identify areas of strength or weakness and give us a rather practical idea of where the economy is heading in the months ahead.

► **In the category of underlying strengths, the upward trend of new orders is perhaps the most potent. Manufacturers' orders in May were 16% above their January low and a further rise took place in June, according to the report of the National Association of Purchasing Agents. Although some of the gain since January represents increased order placements by the Defense Department, which may have a long lead time and therefore would have less of an immediate effect on business activity, nevertheless the over-all improvement in new orders provides a substantial degree of assurance that further business recovery can be expected this fall.**

► Another significant support for the economy is the strong rise in personal income since February. By May, such income had risen to $413.7 billion, a $7.5 billion gain from the year's low and $4.0 billion above the 1960 peak. Here too some counterbalancing factors need to be taken into account. A substantial part of the increase has gone to those who have been in serious economic straits—the unemployed, the aged and those with marginal incomes who are apt to spend most of their earnings for necessities—food, medicine, rent and other services. Although this type of demand does not have as much of a stimulating effect as does spending for durables, the substantial rise in income will in all probability provide a moderate boost to business activity.

► An additional factor of strength is to be found in the steady rise in savings that has taken place, this year's drop in

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	—1961— Quarter I	—1960— Quarter IV	Quarter III	Quarter I
GROSS NATIONAL PRODUCT	499.8	503.5	503.5	501.3
Personal Consumption	378.8	330.8	328.3	323.3
Private Domestic Invest.	61.0	66.0	70.8	79.3
Net Exports	5.3	4.6	3.7	1.2
Government Purchases	104.7	102.1	100.7	97.5
Federal	54.7	53.3	52.7	51.8
State & Local	50.0	48.8	48.0	45.7
PERSONAL INCOME	407.5	408.5	408.0	396.2
Tax & Nontax Payments	50.4	50.4	50.5	49.2
Disposable Income	357.2	358.1	357.5	347.0
Consumption Expenditures	328.8	330.8	328.3	323.3
Personal Saving—d	28.3	27.2	29.2	23.7
CORPORATE PRE-TAX PROFITS		40.7	41.5	48.8
Corporate Taxes		19.8	20.3	23.8
Corporate Net Profit		20.8	21.3	25.0
Dividend Payments	14.0	14.1	14.0	13.9
Retained Earnings		6.7	7.3	11.0
PLANT & EQUIPMENT OUTLAYS	34.4	35.5	35.9	35.2

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	June 24	319.1	323.4	309.3
MWS Index—Per capita*	1935-'9-100	June 24	227.2	230.3	223.8
Steel Production Index*	1957-'9-100	June 24	106.2	106.6	93.3
Auto and Truck Production	Thousands	July 1	157	162	153
Paperboard Production	Thousand Tons	June 24	337.	326	323
Paperboard New Orders	Thousand Tons	June 24	339	303	315
Electric Power Output*	1947-'49-100	June 24	279	293	275
Freight Carloadings	Thousand Cars	June 24	600	602	642
Engineerings Constr. Awards	$ Millions	June 29	457	470	686
Department Store Sales	1947-'9-100	June 24	127	159	124
Demand Deposits—c	$ Billions	June 21	62.6	63.4	N.A.
Business Failures—s	Number	June 22	307	351	296

PRESENT POSITION AND OUTLOOK

instalment obligations and the improved ratio between debt and disposable income. Moreover, indicated gains in government spending in the months ahead will tend to exert a stimulating effect on many lines of business.

► Finally, capital appropriations by industry indicate that expenditures for new plant and equipment will be in a rising trend in the second half.

The economy thus appears to have a solid underpinning for further advance in the months ahead. It is true that the existence of such imbalances as high unemployment, and cut-throat competition are burdens that could impede the recovery. Public confidence in America's position in the cold war has also been shaken by the Administration's handling of foreign affairs and by increasing Russian threats of unilateral action in Berlin, all of which may dampen consumer spending plans to some extent. Nevertheless, the preponderance of forces still appears to be on the side of expansion and the economy should resume its upward course by fall, although the rapidity of the rise will depend on future developments.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960-61 High	1960-61 Low	1961 June 23	1961 June 30
Composite Average	550.0	410.9	524.7	523.7
4 Agricultural Implements	497.2	346.4	454.8	450.9
3 Air Cond. ('53 Cl.—100)	176.9	105.8	160.8	162.0
10 Aircraft & Missiles	1329.2	861.9	1254.1	1243.4
7 Airlines ('27 Cl.—100)	1163.6	736.7	1009.0	1025.3
4 Aluminum ('53 Cl.—100)	521.3	354.5	433.5	417.5
5 Amusements	427.0	209.3	386.8	386.8
5 Automobile Accessories	531.1	401.0	475.5	479.6
5 Automobiles	157.0	90.8	103.5	100.8
3 Baking ('26 Cl.—100)	44.6	34.9	39.0	38.2
4 Business Machines	2008.2	1159.1	1812.6	1838.6
6 Chemicals	887.1	657.3	835.0	842.4
3 Coal Mining	38.4	27.2	35.8	36.4
4 Communications	257.6	199.0	227.0	227.7
9 Construction	231.8	143.3	225.0	221.7
5 Container	1074.3	824.6	979.0	970.4
5 Copper Mining	399.3	275.4	363.5	360.8
2 Dairy Products	232.4	146.8	216.1	216.1
5 Department Stores	188.8	135.2	188.8	188.8
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	422.5	422.5
5 Elect. Eqp. ('53 Cl.—100)	395.6	310.7	371.5	381.8
3 Finance Companies	1027.5	648.8	947.2	939.2
5 Food Brands	763.9	419.3	719.3	741.6
3 Food Stores	326.0	232.1	310.8	300.7

(Nov. 14, 1936 Cl.—100)	High	Low	June 23	June 30
High Priced Stocks	336.4	262.7	325.5	324.3
Low Priced Stocks	729.8	527.6	681.2	683.5
5 Gold Mining	1226.0	810.8	985.1	974.2
4 Investment Trusts	170.6	136.5	163.7	162.3
3 Liquor ('27 Cl.—100)	1548.9	1098.2	1431.5	1431.5
7 Machinery	647.3	402.9	598.6	603.5
3 Mail Order	494.2	364.2	433.5	433.5
4 Meat Packing	298.3	223.9	282.7	290.5
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	189.5	189.5
9 Metals, Miscellaneous	449.8	313.3	426.3	433.1
4 Paper	1237.1	867.3	1021.4	1001.7
16 Petroleum	828.6	609.0	778.6	771.4
16 Public Utilities	472.4	341.0	456.3	452.3
6 Railroad Equipment	110.9	75.8	106.9	106.9
17 Railroads	70.1	49.9	55.5	55.5
3 Soft Drinks	1096.6	690.3	1077.9	1068.5
11 Steel & Iron	464.9	325.4	383.5	376.7
4 Sugar	100.9	63.0	84.3	83.6
2 Sulphur	874.7	563.1	825.3	818.3
11 TV & Electron. ('27—100)	130.4	86.8	119.8	119.8
5 Textiles	258.4	183.3	258.4	256.4
3 Tires & Rubber	255.9	170.6	222.6	220.8
5 Tobacco	284.6	182.5	284.6	282.3
3 Variety Stores	398.9	349.3	395.4	388.3
16 Unclassifd (49 Cl. — 100)	337.7	224.0	314.2	321.3

H—New High for 1960-1961.

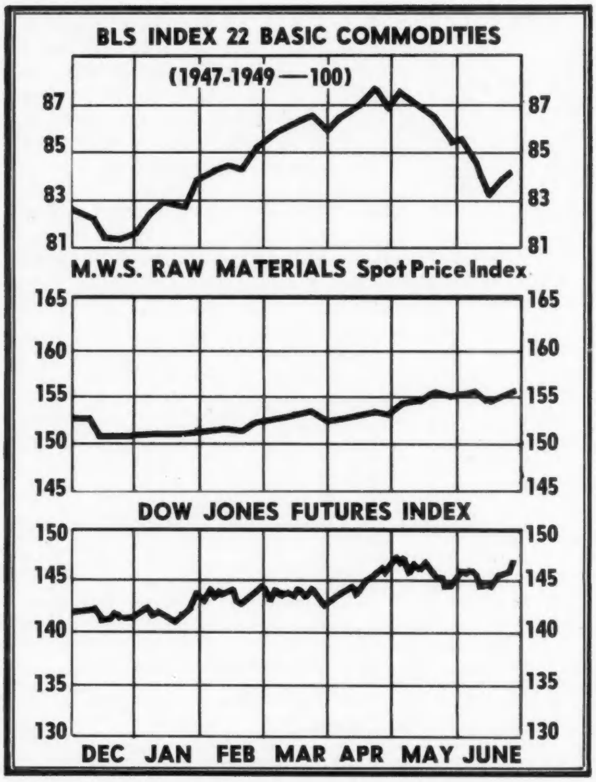
Trend of Commodities

SPOT MARKETS—Prices of sensitive commodities moved higher in the two weeks ending June 30, although most of the the gains were concentrated in food stuffs. The BLS daily price index of 22 leading commodities rose 1.3% during the period, with the food component advancing 2.3% while the industrial materials sector was only 0.4% higher. In the latter category, price advances were scored by cotton, hides, tallow and tin while copper scrap, steel scrap, rubber and wool tops sought lower levels.

Among the rank and file of commodities, greater price stability appears to be developing, with increases and reductions just about balancing each other out. A continued sidewise movement is in prospect this summer but an uptrend may develop by fall if business recovery lives up to expectations.

FUTURES MARKETS—Commodity futures moved upward on a broad front in the fortnight ending June 30, with farm staples in the lead. Higher prices were noted for a long line of futures, including wheat, corn, oats, rye, soybeans, lard wool, coffee, cocoa, hides and copper. Reports of unfavorable growing weather, the maritime strike and price raising efforts here and abroad all were factors contributing to the upsurge. The Dow-Jones Commodity Futures Index advanced 2.5 points during the period to close at 147.3, not far from the year's high, reached in May.

Wheat futures were affected by the drought in the Northwest U.S. and Canada and all options made sizeable gains. Hedging pressure during the current heavy marketing period may limit advances, but the longer term outlook appears to favor the upside.



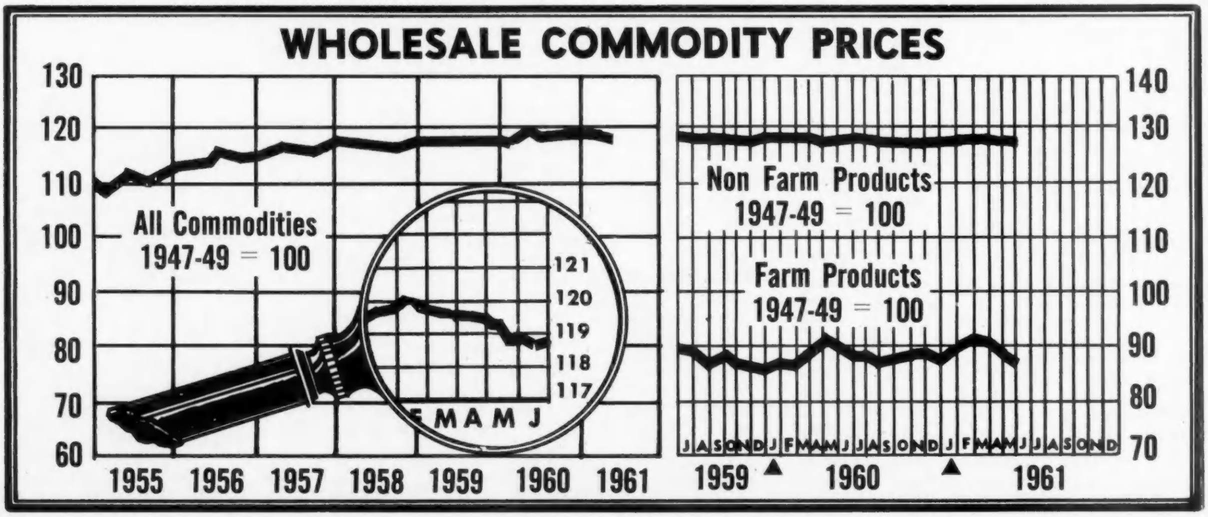
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	June 27	118.8	118.7	119.5	60.2
Farm Products	June 27	86.4	86.2	89.0	51.0
Non-Farm Products	June 37	127.7	127.7	128.2	67.0
22 Sensitive Commodities	June 30	84.2	83.1	85.3	53.0
9 Foods	June 30	76.7	74.7	77.1	46.5
13 Raw Ind'l. Materials	June 30	89.7	89.3	91.4	58.3
5 Metals	June 30	95.0	95.5	93.2	54.6
4 Textiles	June 30	80.3	80.4	79.9	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1961	1960	1959	1953	1951	1941
High of Year	155.5	160.0	161.4	162.3	215.4	85.7
Low of Year	150.5	151.1	152.1	147.9	176.4	74.3
Close of Year		151.2	158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1961	1960	1959	1953	1951	1941
High of Year	147.7	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	141.2	144.2	153.8	174.8	55.5
Close of Year		141.2	147.8	166.5	189.4	84.1



Revolution in the Can Industry —The Battle Between Glass — Cans — and Plastic Containers

(Continued from page 466)

participate in the growth of the Common Market.

The Smaller Companies

Anchor-Hocking Glass Corporation is second only to Owens-Illinois in production of glass containers and is the largest manufacturer of machine-made glass tableware. Sales are about evenly divided between the two lines. Metal and plastic closures and sealing machinery account for a minor portion of volume.

After eight years of steady gains, earnings fell from $2.76 per share to $2.31 last year, primarily because of the company's inability to offset higher costs of doing business with increased prices. The expense of participation in the promotional campaign for non-returnable beer bottles, a mold revision program, and accelerated research and engineering efforts also contributed to the decline. The unfavorable comparison continued into 1961 with first quarter earnings of $0.37 per share down sharply from the $0.60 earned a year earlier.

The price increase of April 1 and the expected increase in container demand, as well as absence of some non-recurring expenses, should enable later quarters to make a more favorable showing. Over the longer term, possible entry into plastic bottle production could create a new source of earnings.

Thatcher Glass Manufacturing Company with sales of $51 million is about sixth in size among glass container producers. Sales of glass containers furnish approximately 80% of volume, while molds, table and oven glass, plastic seals and closures, and plastic squeeze tubes account for the remainder.

Net income advanced at a fairly steady pace through 1959, although per share figures were somewhat more erratic, largely because of the issuance of additional stock from time to time. Earnings fell sharply last year as the company was forced to cope with weaker product prices in the face of higher wages and operating costs. The decline continued into 1961 when, despite an 8% lift in sales, per share earnings fell from $0.44 to $0.30 in the first quarter.

Management is hopeful that the industrywide price increase, together with growth in the use of one-way beer bottles and substantial improvement in the plastic container division will bring a pickup in earnings later in the year.

While **National Can** is the third largest independent can manufacturer, its $100 million plus volume accounts for only about 6% of total industry sales. National has been able to report excellent sales growth, in good measure because of a series of acquisitions. Earnings, however, failed to keep pace by a wide margin and, in fact, fell from $1.90 per share in 1956 to only $0.24 in 1959. Last year National, in contrast to its two leading competitors, scored a major recovery, with earnings soaring to $0.76. First quarter operations are normally unprofitable and 1961 was no exception. A $0.31 loss was in line with year earlier results.

Over the past few years this company has been engaged in an extensive program of expansion and modernization that is now substantially completed. With this accomplished, management is in a position to concentrate on increasing profits. Sales should be higher this year, swelled by a full year's output from three new plants opened in 1960.

In view of the erratic earnings record, the stock must be considered speculative, and the rather heavy concentration of West Coast plants makes the company more than usually vulnerable to a local crop failure. Nevertheless, if management is able to continue the improvement shown last year, the stock could prove to be a rewarding holding. Cash dividends were suspended in 1953, but 6% stock has been paid each year since 1956.

A Good Speculative Basis

Crown Cork & Seal is a perfect example of one of the writer's pet theses, namely, if one is willing to speculate, the combination of a company with a poor record, a new management and a fundamentally sound industry can prove very profitable. In 1956, after several years of deterioration, earnings hit a low with a 14¢ share loss. During 1957 the present management, headed by President John F. Connelly, took control. Under his direction accounting procedures were revised, manufacturing facilities relocated and expanded, excess inventories disposed of, employment including some highly paid managerial employees was reduced, and a cumbersome operating system was simplified. The result of all these changes is most dramatic. Earnings, which were in the black by the end of 1957, rose to $1.41 in 1958, $2.39 in 1959, and $3.15 last year. The common stock, which could have been purchased for as little as 11 in 1957, reached a new high in each succeeding year and now sells around 86. With first quarter 1961 earnings of $0.82 well ahead of the $0.54 reported for the first quarter of 1959, full year earnings should score another excellent advance.

Metal cans represent somewhat more than half of Crown Cork's volume, crowns and closures about 40%, and bottling and packaging machinery the remainder. A 51.6% interest in rapidly growing Crown Cork International provided dividend income of about $700,000 last year. Dividends have been suspended since 1956 but early resumption now appears likely.

An Exciting Struggle To Watch

Although the container manufacturers have not generally been regarded as "romantic", the heightened struggle between metal and glass containers will be exciting to watch, even for those who have no financial stake in the outcome of the contest. To be sure, several of the larger companies have reduced their stakes by securing a foothold in the enemy's camp, but all of them are still primarily committed to one type of container or the other. And to complicate the picture further the can makers are being forced to fight an annoying rear-guard action against the do-it-yourself tendency of large food packers, in the face of the major battle.

These developments, and others, all comprise a significant revolution taking place before our eyes. Certainly there is nothing prosaic in the container industry. END

The Need For Modernizing Our Financial Machinery

(Continued from page 463)

companying table on the distribution of assets of private financial institutions, which appears in the Commission's report. ● **Commercial Banks and Thrift Institutions** are the subject of many specific proposals, too numerous to list or review thoroughly here. Several deal with removing inequities in federal income tax provisions between commercial banks, savings banks and savings and loan associations, which usually have favored the latter two groups. Recommendations are made for branch banking within "trading areas" irrespective of state laws, on the part of national banks, federally chartered mutual savings banks and savings and loan associations. Interest payments on demand deposits (now prohibited) are opposed, while the Commission favors regulation of interest rates on savings and time deposits for commercial banks on a stand-by, rather than continuous, basis, and the differentiation among types of deposits, including those of U.S. and foreign residents. The reserve requirement distinction between time and savings deposits should be repealed, according to the study.

It asks for more flexibility for banks to acquire a wider range of long-term debt instruments and investments, but calls for a continuation of the existing restrictions on investment in equities by banks. But it recommends that all types of banks and thrift institutions should be governed by the least burdensome restriction available to any one of them (in this case, mutual savings banks). The group wants all insured commercial banks to be required to become members of the Federal Reserve System.

The Commission asks for more regulation over private corporation pension funds, for the development and enforcement of their investment standards and the issue of periodic financial statements by such funds.

Federal credit programs are, on balance, accepted and favored by the Commission for continued operation. These include those of FHA, various forms of farm credit, VA, Federal Home Loan Bank, etc. The report calls for an end to ceiling rates on underwritten mortgages and those affecting agricultural credit, and asks for a continuation of FNMA (Federal National Mortgage Association, better known as Fanny Mae) secondary market operations.

International Monetary Relations Require Greater Flexibility

This section, although rather brief, presents a very good, concise and readable summary of our postwar payments developments, explanations of the items making up the balance of payments, a brief review of changes in the international economy and considerations of balance of payments adjustments. Its conclusions:

► 1) in terms of unemployment and lower growth, costs would be so great from trying to correct the payments deficit by general monetary and fiscal policies, that "alternate means should be sought to achieve the necessary balance". The measures required are by now well-known and reported upon, and do not include restrictive controls.

► 2) The present dollar price of gold should be retained "as a pivot in the exchange rate structure among IMF countries" and any needed realignment of the structure should be around this pivot. To strengthen the U.S. banker position, as regards international liquidity, **it recommends elimination of the 25% domestic gold reserve requirement at the earliest convenient moment, so that all U.S. gold is available for international settlements.**

The Commission mentions the ***possibilities*** of greater reliance on fiscal measures at home in recession time, greater freedom in setting interest rates on bank deposits of foreigners to compete with those offered abroad, official U.S. operations in forward exchange markets (which we have already begun), the widening of exchange rate margins, and a widening of the U.S. buying and selling prices of gold from ¼% to the maximum of 1% now allowed by the IMF. ● Enlarging quotas in the latter institution, Central Bank cooperation in supporting currencies under temporary strain (such as the Basle arrangement among European Central Banks now operating to help sterling), the Reserve Settlement Account scheme of Edward Bernstein and the world Central Bank plan of Robert Triffin (reviewed in our June 3rd issue in "New Horizons for International Financial Cooperation"), are all viewed as technically feasible.

Organization And Cooperation For Economic Goals

► The final chapter of the report deals with coordination in government between the executive and policy-making agencies. No one sentence is more true than that which includes . . . "the first prerequisite of effective coordination, *and the hardest to get,* is unity of purpose". The Executive branch, Congress, the Treasury and the Fed have often proved the italicized words to be only too true. Specific Commission proposals in this area:

► 1) Congress should modernize and make consistent the Federal Reserve Act and the Employment Act, by incorporating

identical language in each to formulate the goals of low level unemployment, an adequate rate of economic growth and reasonable price stability, as applicable to all federal agencies administering economic programs;

► 2) the search for an organizational focus must proceed to center on the Presidency;

► 3) "Economic Indicators", now issued monthly by the Joint Economic Committee and assembled by the Council of Economic Advisers should be issued from the Executive Office of the President;

► 4) whenever the economic situation is unfavorable, the President—on his own behalf or by request of Congress—should supplement his annual "Economic Report" with comments on the economy, including steps being taken to help achieve the three goals;

► 5) the setting up of a non-official advisory board under a chairman designated by the President, including representation of the Federal Reserve Board, Council of Economic Advisers, Treasury and other agencies, with the President attending periodic meetings often enough to exert a vital leadership;

► 6) the setting up of a clear and continuing responsibility for the direction and coordination of actions required to deal with the balance of payments problems and for the coordination of grant, loan and trade policies as aspects of U.S. foreign policy.

Major Objective: Education In Fiscal Policy

This has merely been no more than a cursory review of the Commission's report and much has been omitted or just touched upon. The admitted purpose of this article is to induce as many as possible to actually *read* the report itself. Whether or not one agrees with its recommendations, with some of the viewpoints of the present writer, or with some of the dissenting footnotes to the report, is not important. **What is important is that more people will become aware of the intricate problems of our national monetary and financial machinery, leading to a more economically informed electorate.**

Then, disputes as to policy decisions will become more meaningful and some constructive proposals can be converted into actuality through the legislative process. As the report so cogently notes toward the end, in relation to economic policy: **". . . chance will intervene, unanticipated side effects will arise, and uncontrollable outside events may frustrate plans and alter problems. . . . In the face of such contingencies, pragmatism is better than dogmatism".** END

The Challenge Of . . . The Changing World Economy

(Continued from page 469)

The Japanese Dilemma

Another type of problem is illustrated by Japan's remarkable post-war comeback. Although industrialized countries are generally other industrialized countries' best customers, trade with highly developed **Japan** raises a serious dilemma for the United States. The whole issue of Japanese cut-rate imports is going to plague the United States with rising intensity in the years immediately ahead.

In the latter part of June, Japan's Premier Hayato Ikeda, making his first venture into personal diplomacy as his country's leader, held long and detailed conversations on U.S.-Japanese trade with President Kennedy and other top Washington officials.

What makes his visit so crucial is the fact that Japan is now going through a fundamental reassessment of its foreign trade policy. Since the American mass market for consumer goods is Japan's chief outlet—absorbing 30% of the island's exports in 1959—the United States is Japan's number one target for trade expansion. And it is in this context that the talks will be conducted.

With each indication that Japan's lifeline to the United States might be restricted, or new opportunities denied, Japanese businessmen are casting an eye toward another trade prospect—their giant neighbor, Red China. They remember when they sold 30% of their exports and bought 15% of their imports on the Asiatic mainland, before World War II. When these trade ties were curtailed after the war,

and severed completely in 1958, the bulk of this trade was redirected toward the United States.

This trade could easily swing back to Red China mainly for heavy machinery and the like and to a limited extent for consumer products. Indeed, some Japanese businessmen see distinct advantages in reopening this trade. Since heavy shipments of industrial raw materials, once supplied by China, are now met by purchases in the United States, the high cost of transporting these bulky materials across the vast reaches of the Pacific could be saved, these businessmen claim, by obtaining them from the neighboring mainland. Nonetheless, the Japanese view this trade prospect reluctantly. It is only when it appears that their number one choice—the United States outlet—might be limited that they begin to think seriously of trading with the Red Chinese.

Could We Afford Loss Of Our Second Largest Market?

How deeply a Japanese shift toward Red China would cut into current United States-Japanese trade is not yet certain. Like the United States, the Chinese mainland is basically an exporter of food and raw materials to Japan, and an importer of Japanese manfacturers. Not all of our exports would be lost by any means, but certainly enough to pinch, particularly in heavy bulk materials such as iron, coal and grain which must now be shipped at great expense from American ports. **The real damaging blow would be the weakening of Western defenses in the Pacific by probable Communist demands that Japan expel United States bases as a condition for trade.**

On the positive side, there are distinct advantages in keeping Japan's trade tied to the United States. In overall trade, Japan is buying more from America, roughly $1.5 billion annually, than America is buying from Japan, about $1.1 billion. Only Canada outranks Japan as the United States' largest customer. If this two-way trade were to be raised to a total of $4 billion yearly—the goal stated by a recent Japanese trade mission—the American trade surplus would rise in about the same proportion.

For Japan this overriding dependence on the American market remains the key to its economic stability and, perhaps, the most significant external factor in the stabilizing of free political institutions in that nation. This fact was weighed carefully in the White House discussions, as evidenced by the formation of the Joint United States-Japan Committee on Trade and Economic Affairs. This group will work out measures for increasing sales of each country's goods in the other's markets and to avoid friction produced by competition with locally produced products. The sale of cut-rate textiles in the United States market, a particularly sensitive matter, will no doubt present the committee with its first major problem.

Cut-Rate Imports More Likely To Grow Than To Subside

►**A key fact for the American businessman to note is that the problem of cut-rate imports from Japan is not an isolated issue. It foreshadows much that is yet to come. The chief competitive advantage of the Japanese—low production costs, and particularly low labor costs—is shared by the whole gamut of new nations in Asia and Africa. As soon as the new factories being built in these countries fill their domestic markets, they will turn to international trade in an effort to earn foreign exchange. In fact, a number of cheap labor countries are already preparing to step into Japan's shoes.**

►Moreover, the competition will not be restricted to low-cost textiles, the star performer of Japanese exports. Textiles represent simply the **first** major industry to take root in a new economy. The final competitive assault will be made along a broad front of light manufactured goods, including hardware, low-cost consumer goods, processed foods, and a broad range of light engineering products.

►India and Hong Kong have now reached the stage where they are exporting these light manufactures in quantity. Pakistan, Brazil, Argentina, Yugoslavia, Mexico and Egypt are close behind. The first step of these new nations toward industrialization must be made on the lowest rung of the ladder—that of light manufacturing. They simply do not have the capital nor the technical skill necessary to compete effectively in exports of heavy industry.

Possible Solution: Concentration In Heavy Manufactures

Yet, much of today's international demand is focused upon heavy industrial goods. As the squeeze on light manufactures tighten, the opportunities for machinery and like industrial products expands, thus widening the gap between those nations already industrialized and those just initiating industrialization. And yet, the potential market these latter nations offer for the products of the former, as estimated by GATT and noted economists, should easily reach the 60 billion dollar mark by 1970.

What must the United States and its Western industrialized allies do in the face of this situation? Many internationally noted economists advise that the older industrialized nations surrender some sectors of light manufacturing to new industries

in the developing countries and find their compensation in the more specialized and dynamic forms of industrial production on which ther dynamic growth depends. This would be painful but the crux of the matter is that if the United States wants to retain Japan not only as an ally but as a major customer, we might very well have to adjust our economy to accept a reasonable amount of Japanese imports, especially in the light manufacture field. Further, if we want to assure future markets for American business and at the same time increase the membership of the non-Soviet Orbit, it may be necessary to accord the new Asian and African nations similar treatment when their goods appear in the world market.

Is Our Weapon To Be Trade Restriction Or Trade Expansion?

The proposals that the Joint United States-Japanese Committee suggests in the field of trade and the prospects it offers for expanded Japanese trade with the United States will have a powerful bearing on the Japanese Government's decision to resist or acquiesce to the growing pressure for Red Chinese trade. But also for a number of American businessmen in the field of light manufacturing the Committee's findings will provide a key indication as to whether the "New Frontier" is going to respond to the long-term Asian and African assault with a policy of trade restriction or a policy of trade expansion.

The competitive resurgence of other nations creates opportunities as well as challenges for the United States. But constant flexibility will be required if we are to maintain our leadership. Some of the "new" conditions to which we have barely adapted our thinking are already on the verge of change. END

Bank Stocks As Investments Today

(Continued from page 475)

and loans to small businesses at higher average rates of interest. By the same token, when interest rates rise, the New York City banks may be expected to show a sharper upturn in earnings than the other banks.

● **Although the New York City banks have had the benefit of larger amounts of earnings assets in the first half of 1961, the current lower level of interest rates has made it difficult for them to match the peak earnings level reached in the first six months of last year.** In fact, for most New York City banks the net operating earnings for the first half of 1961 averaged about 6% below the comparable 1960 figures. This is a somewhat larger decrease than that estimated for the out-of-New York banks in the same period. reflecting the fact that New York City bank earnings are more sensitive to changes in interest rates. An exception is Chemical Bank New York Trust which turned in a relatively poor earnings performance a year ago but this year is registering about a 7% gain. Manufacturers Trust, with its predominance of "retail" banking business, also is turning in a better than average earnings performance this year, although it is still under a year ago.

Non-New York Bank Stocks A Little Cheaper

The stocks of banks in other eastern cities such as Boston and Philadelphia tend to sell at somewhat lower average price-earnings ratios and higher yields than the New York City banks. Many of these banks, such as **First National of Boston, First Pennsylvania Company** and **Girard Corn Exchange Bank** have turned in excellent records of growth in earnings, dividends and market value of their stocks over the past decade. As a group these banks do not command quite as broad market acceptance as national and international financial institutions as do the major New York banks. The stocks of the Philadelphia banks, have not risen as sharply as the New York bank stocks this year and seem to be relatively attractive from a market standpoint at present.

In the Midwest, a number of banks have forged ahead to positions of leadership and are expected to continue to grow with their area. Among these are **First National of Chicago** (which, however, has already had a 43% rise this year), **Continental Illinois National, National City Bank of**

Cleveland and **National Bank of Detroit.** The latter two are regarded as particularly well situated to benefit from the current upswing in the steel and automobile industries.

West Coast Banks Show Excellent Growth

On the West Coast, **Bank of America, Wells Fargo American Trust, Security First of Los Angeles** and **Crocker-Anglo California Bank** are regarded as excellent growth situations. These banks benefit from the superior growth characteristics of California plus the fact that statewide branch banking has long been possible in those states. Retail banking at interest rates well above the prime rate also make up a larger than average proportion of the business of these banks. Thus, they are less susceptible to changes in the prime rate than the large New York banks. However, savings accounts constitute sizeable percentages (about 50% in the case of Bank of America) of total deposits of the California banks, and the upward tendency in average interest rates paid on savings deposits is retarding their earnings growth this year.

Chief Bank Holding Companies

The principal advantage of the bank holding companies lies in their ability to cover extensive banking territories and thus obtain geographical diversification as well as functional diversification among the different types of borrowers found in urban and rural areas. **Western Bancorporation** (formerly Firstamerica Corporation) has 24 banking subsidiaries in 11 Western states with a total of 444 banking offices. The principal constituent bank is United California Bank, which is a major California banking institution. Consolidated banking assets of the group aggregate over $5 billion and management is able and aggressive. **Northwest Bancorporation** and **First Bank Stock Corporation** are large bank holding systems radiating from Minneapolis. Both of these groups have made excellent records in the past decade with respect to increases in earnings, dividends and market values applicable to their equities. **First Wisconsin Bankshares** is another midwestern bank holding company, all of whose subsidiaries are in Wisconsin, which has been particularly successful in recent years. In the east, **Marine Midland Corporation,** operating through constituent banks in New York State, has been the outstanding bank holding company.

The increased investor regard for bank holding companies is reflected in the fact that price-earnings ratios and yields on the stocks of these companies now are close to those for the operating banks' equities. This improvement in investor appraisal parallels the steady gain in standing with investors which the public utility holding companies have made in comparison with operating electric companies during the past decade.

Growing Investor Confidence

Bank equities as a group continue to represent sound investment values in comparison with other stock groups. Their excellent market performance this year, in the face of somewhat lower earnings, indicates investor confidence in the banks' ability to again enlarge their profits as business recovery gains momentum.

END

What's Ahead For The Railroads

(Continued from page 479)

opposition to piggyback may have to seek other weapons. In the long run it is usually impossible, however, to thwart an economically desirable service, and such attacks are not likely to constitute more than minor obstacles to piggyback's continued growth.

The Immediate Outlook

Aside from piggyback the hopeful developments noted are illuminating the distant horizons only. What is the more immediate outlook for railroad earnings?

Just moderately encouraging. Recovery from the recession is now clearly indicated and this will naturally help, although real prosperity must await a strong revival in the heavy industries, such as steel. Fortunately, during their extended four-year (1957-60) famine, the railroads cut expenses sharply, and are now in a relatively lean and healthy condition. On the other hand, deferred maintenance — which in the railroad industry is charged only as performed, not on an accrual basis — will be relatively high, and will add to expenses on some roads. **Unless the recovery falls in its tracks final earnings for the year should be a little better than in 1960—but this expectation provides very slight comfort. More satisfying improvement must await such external changes as merger, greater rate-making freedom, tax equity and reduction of feather-bedding.**

While all American railroads share a uniform gauge and have a common denominator in the form of the familiar red boxcar, most of them are actually highly individualistic and not susceptible to generalization. Thus, particular stocks must be examined apart from the industry as a whole.

Western Roads Strongest

► **For various reasons the western transcontinental roads—Atchison, Southern Pacific, Union Pacific, Northern Pacific and Great Northern — enjoy the strongest position.** Their long average hauls give them relative freedom from truck competition and also minimize the heavy terminal costs that plague the eastern carriers. The cancerous commuting service is absent in this territory, and traffic, including products of agriculture, forests and mines, is well diversified.

● Several of these roads enjoy substantial non-rail income. Northern Pacific has had its prosperous oil department for some years, and **Union Pacific,** which derives nearly half of earnings from outside sources, has just created Natural Resources and Land Divisions to manage its extensive properties under these categories. All of the roads above can claim near-blue chips status.

The **Milwaukee Road,** an exception among the transcontinentals, is marginal, and was recently obliged to omit its dividend. **Rio Grande** and **Western Pacific,** which jointly form a seventh transcontinental route, both represent fair quality. The latter has also acquired a further speculative interest from the current contest between **Southern Pacific** and **Atchison** for its control.

Granger Lines Offer Variety

► The Granger Roads—those

serving the Middle West from Chicago and St. Louis—present considerable range in quality. **Kansas City Southern,** with its single main line unburdened by branches and serving a territory which is now growing up around it, represents quality investment status. **Rock Island** and **Illinois Central** represent upper medium grade, but **Chicago Great Western** and **Missouri-Kansas-Texas** are distinctly speculative. The latter is actually handicapped by the fact that it escaped receivership during the depression by the skin of its teeth, and was unable, like so many other roads, to wipe the slate clean and make a new start.

Frisco suffers from the lightest traffic density of any major road in the Southwest, but should shortly realize $22 million from the pending sale of its majority interest in **Central of Georgia** to the **Southern.**

Missouri Pacific is in a class by itself for several reasons. Its long-delayed reorganization in 1956 was less drastic than most—owing largely to the efforts of the late Robert R. Young to protect its security holders—and this meant the preservation of a relatively heavy debt structure. Nevertheless, the road's earnings performance has been relatively favorable, and the $2.40 dividend is well protected. **Mississippi River Fuel,** a gas company, now owns a quarter of the 'A' stock, while Alleghany Corp. is the major holder of the small 'B' issue.

Industrial Growth In South Offers Oportunities

► The twins, **Atlantic Coast Line** and **Seaboard Air Line,** have both been prosperous in recent years and should enjoy substantial new economies after their forthcoming merger. **Louisville & Nashville,** controlled by the Coast Line, represents relatively high quality despite the double reduction of its quarterly dividend last year. **Southern,** which is hoping to absorb Louisville if the Seaboard-Coast Line merger goes through, has been transformed since the war into a highly efficient system. **Gulf, Mobile & Ohio,** the last major road to be put together by merger, is vulnerable both to barge competition and that of more strongly entrenched parallel railroads.

For many years, until World War II, the South was retarded in its industrial development. This trend has recently been reversed, and factories are being installed at a particularly rapid pace. The southern railroads, most of which formerly occupied a somewhat marginal position, should benefit directly from this change of pace.

Northeast The Problem Area

Severe distress in the railroad industry is largely confined to the northeast quadrant, or "Eastern Trunk Territory". Competition, both among railroads and with other carriers, is severe here, congestion causes high terminal costs, the area is largely dependent upon cyclical manufacturing industry, and a number of the roads are burdened by heavy passenger losses. Any early return to real health by **Pennsylvania** or **New York Central** can be only a wishful hope. **Erie-Lackawanna** is also deep in the red, with large income bond payments preceding any resumption of dividends. **Boston & Maine** and **New Haven** can be viewed only as desperate speculations, although the latter has finally won property tax abatements of $6 million annually.

Delaware & Hudson, a bridge road between the Middle Atlantic area and Canada, has enjoyed better prospects than its neighbors but should be regarded primarily as a speculation on its position in some future merger. **Reading,** a small terminal road, and **Lehigh Valley,** a Pennsylvania affiliate, are both marginal and have little attraction aside from their role in a merger scheme.

The single Eastern Trunk road that can claim semi-investment status is **Nickel Plate,** doubly attractive because of its forthcoming merger with Norfolk & Western. **Baltimore & Ohio,** third largest eastern carrier, can generate high common earnings in good years but is too cyclical for the ordinary investor. The proposed merger with Chesapeake & Ohio, however, makes the picture much more attractive. After some show of reluctance B. & O. is now apparently going to promote this union enthusiastically.

The two Pocahantas roads, **Chesapeake & Ohio** and **Norfolk & Western,** with their strong earnings secured upon their steady coal traffic and highest standards of physical efficiency, are in a class by themselves as the only blue chip railroads in the East. To be sure, Chesapeake's $4 dividend is not well protected at the moment and has probably been maintained largely for propaganda purposes to strengthen the road's merger position, but the current price adequately recognizes some reduction.

A Little Bit Of Luck?

As the foregoing review shows, a few railroads continue to offer prime investment status and a number of others, although of lower quality, are attractive at current prices even in the light of their declining share of the nation's traffic. Still others are capable of satisfactory earnings only during boom periods in the general economy, and at the bottom of the list are a group of rail stocks that can be regarded only as the most extreme speculations. This appraisal is in the light of immediate conditions. With some improvement in externals, meaning taxation, regulation and featherbedding, and with perhaps a little bit of luck, some of the better railroad stocks could eventually show substantial profits.

END

What's Back Of Earnings Evaporation For Meat Packers?

(Continued from page 482)

than a year earlier. The improvement reflects recovery from a strike that closed seven of the company's ten domestic plants during the first four months of last year. Considering that the industry should do better during the second half there is little doubt that full year earnings will rise well above 1960's $0.53.

Wilson is the third largest packer and a processor and distributor of poultry, eggs, dairy products and vegetable oils. Chemicals, pharmaceuticals and gelatin are manufactured as by-products of meat packing activities. Wholly-owned Wilson Athletic Goods Mfg. Co. is the leading domestic manufacturer of sporting equipment and an important contributor to profits. Foreign operations including packing facilities in Argentina, Brazil, New Zealand and Australia. Recently the company was forced to suspend slaughtering in Argentina because of insufficient livestock supplies and labor disturbances.

Wilson is well along on its program of modernizing distribution methods.

Cudahy Plant Modernization Program Well Advanced

The fourth largest unit in the industry, Cudahy Packing, processes a full line of meat products as well as a number of pharmaceuticals manufactured from slaughtering by-products. The company also deals in poultry, eggs, diary products and vegetable oils.

Cudahy is well along on a program of plant improvement. During the past few years the company closed down a number of old, unprofitable facilities and constructed several new efficient plants. The value of this program is evident from a glance at the company's operating history. While current sales volume is well below the $450-600 million level of the early 1950's, operations have been consistently profitable since 1955 in contrast to the three deficits recorded between 1949 and 1954. The expected completion later this summer of a new plant at Omaha will have a material effect on earnings. President Thompson recently announced that the shift from the present plant acquired in 1887 will permit a 33% reduction in the 2,000 man work force.

An 11% drop in hog slaughter together with unsatisfactory beef margins resulted in a small deficit during first half 1961. More ample livestock supplies should bring some recovery during the second half. Looking into 1962 and beyond, the elimination of unprofitable activities could bring a good lift in earnings and the resumption of dividends, suspended since 1949.

Morrell Should Benefit from Higher Hog Marketings

As about two-thirds of **Morrell's** volume consists of pork products, operations are very sensitive to fluctuations in the level of hog marketings. This was demonstrated by the company's experience of the past year when earnings fell sharply in the final half of fiscal 1960 and the first half of fiscal 1961 because of smaller raw material supplies. From $2.04 in the first half of 1960 earnings dropped to $1.11 during the second half, and then plummeted to only 18 cents in the first half of the present year. Management expects larger supplies of livestock forecast for the latter part of 1961 will bring a more favorable relationship between costs and meat prices.

Packaged brand-name meat products comprise a substantial portion of sales. Acquisitions consumated within the past two years provided entry into the livestock feed business. This new venture has been profitable. Partly through acquisition, Morrell has been able to show an excellent increase in sales during recent years. As stock outstanding increased only moderately, any improvement in margins on the higher volume could bring a sharp lift in per share earnings.

International Packers Particularly Speculative

International Packers has not published its first half statement as yet. The company is engaged in meat packing in Argentina, Brazil, Australia and New Zealand and has interests in other aspects of the food business in these countries. Chilled, frozen and canned meat is sold throughout the world, with the United Kingdom the most important market.

After rising for four years, earnings fell in 1960 largely because of a packing house workers' strike in Argentina during the normally peak period of livestock supplies. A British dockworker's strike that prevented shipments to the United Kingdom for four weeks also contributed to the decline. Continued unsatisfactory conditions in Argentina may limit the degree of recovery possible this year. While International has made considerable progress in recent years, the world-wide nature of its business makes the stock even more speculative than the average packing issue.

Hygrade and Hormel

With both sales and dollar volume lower, **Hygrade Food Products** reported a loss in first half of 1961. The company attributed the disappointing results to unsatisfactory beef margins and smaller hog supplies. In addition, the installation of new equipment at three plants retarded operations while employees acquired new skills. Larger livestock supplies should bring improvement during the balance of the year.

Hygrade conducts a general meat packing business with a substantial portion of output consisting of processed meat specialties. Last year the company replaced most of its meat brand names with the Hygrade name in order to obtain the benefits of national advertising. In addition to meat packing, Hygrade processes dairy products, dog food, coffee, fertilizer and livestock feed. Operations have been expended and modernized in recent years.

Hormel, processor of the well-known Spam, conducts a general meat packing business with emphasis on canned meat products. The company also packages a line of baby meats distributed by **Beech Nut-Life Savers** under the Hormel-Beech Nut label. Margins are usually somewhat wider than the industry average because of concentration on more highly processed meats. Earnings, however, show the year-to-year swings typical of the industry.

First half sales rose slightly from last year on higher prices. Tonnage was down, however, and earnings fell about 45%. The company attributed the decline to unprofitable beef operations, lower hog supplies, and higher labor costs. With increased marketings of both cattle and hogs in prospect during the coming months, earnings should recover. END

Mid-Year Appraisal Of Bond Market Under Shadow of Big Government Financing

(Continued from page 485)

inventories are reported close to the $500 million level although the calendar of new issues is only about half as large.

● **Two large turnpike issues in the week ended June 23rd had a good reception, but the Massachusetts Turnpike offering again failed to "get off the ground" although the terms had been sweetened by the Authority. Among the larger issues pending in July are $18 million Los Angeles Bonds, $13 million Memphis, $52 million New York State Housing Bonds, $35 million State of Kentucky, $14 million State of Alaska, $35 million Michigan, and $17 million North Carolinas.**

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This is a most unusual situation — where earnings soared 56% in 1960 and 70% in the first quarter of 1961. The current dividend represents a 3.4% yield but a hike in this payment is likely soon since it is being earned 3-times over. New management has sparked efficiency in all sectors of corporate activity including diversifying into new fields. This stock should prove a rewarding committment for income and appreciation.

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market. Industry and the banks have followed a conservative policy over the past year to achieve financial liquidity. The money supply began to increase sharply in the spring, and while demand for bank loans may increase it would probably take some time for such increased demand to cause any shortage of funds resulting in a rise in interest rates since the Federal Reserve has been keeping free reserves around the $500 million level for several months. Despite the excitement over the gold exodus and the Federal Reserve's effort to "nudge" short-term rates upward in order to check the outflow; short-term interest rates were generally stable during the first five months of this year, especially as compared with the same period as 1960.

● The commercial paper rate was cut one-eighth point June 27th — the second reduction in two weeks; Fannie Mae also trimmed the rate on its short-term notes. Thus far, the so-called new "business boom" has not created much demand for bank loans — and some think it is beginning to run out of steam. The banks for some time have been buying short term Governments. If bank loans should decline this summer, surplus bank money might be of some help to the bond market in coping with the huge Federal financing which it faces during July and August.

Business Revival Would Depress Prices Further

The longer-term trend of the bond market will be largely dependent on the trend of business activity in the second half of 1961 and during the year 1962. The F.R.B. index of production will probably rise more slowly from here on, but it could easily reach 115 by the year-end, compared with 108 in May, 105 in April, and 102 in March. The average for 1961 should work out around 108 or about the same as the average for 1960. **We believe the index might average around 117 or 118, or 8% above 1961.**

Secretary of the Treasury Dillon recently estimated gross national product for 1962 at $555 billion, which would be about 8% over 1961. Thus, with the bond market already at a fairly low price level (or fairly high yield-wise) the outlook for the coming 12 month period seems a little bleak. While the F.R.B. might well come to the rescue of the Treasury Department in August, its longer-term objective of preventing inflation may limit its further "cooperation" unless the Administration brings strong pressure to bear for lower money rates.

Conventional Mortgages Regain Favor

What about the impact of the Government's new housing program on the Fannie Mae bonds? Mortgage loans insured by the Federal Housing Administration seem to be gradually losing their appeal in the residential mortgage investment market, according to James J. O'Leary, Research Director for the Life Insurance Association of America. Unless Congress takes steps to improve their status, the issuance of FHA loans is thus expected to decline steadily as the primary source of residential financing, with conventional loans without Government backing taking their place. The steady increase in real estate values during the postwar period has considerably reduced the risk in mortgage spending, he pointed out, and as a result Government backing is not as important as it once was. Moreover, conventional mortgage loans have been favored by recent state laws, liberalizing ratios of loan-to-value. Now many lenders wish to underwrite risks themselves and get a higher interest return than can be obtained with the fixed 5¼% FHA loan. **Also, 40-year mortgages with only nominal down payment (to help low-income families) as embodied in the Administration Housing Act might tend to reduce confidence in Fannie Mae bonds and drive private lending institutions out of the FHA field.**

Difficulty Of Controlling Money Rates

Since the Kennedy Administration is still "new" and could pull some more rabbits out of the hat, any predictions as to its effect upon money rates must be issued only with reserve. At this point it looks, however, like the campaign to reduce long-term rates is a failure, and somewhat higher rates may be anticipated in the intermediate future. The Government has been, indeed, attempting to pull off a very difficult trick, as its major objective — an accelerated business recovery — has implications directly contrary to the desired lower money rates. Of course, opinion will remain divided as to what extent money rates are a cause of, or a reflection of, the business cycle. Orthodox economic opinion has always suggested that rates respond to business activity and that easy borrowing conditions alone cannot spark a recovery.

END

Book Reviews

The Great Swindle

The Story of the South Sea Bubble

BY VIRGINIA COWLES

In *Gay Monarch*, that delightful narrative of the life and pleasures of Edward VII, Virginia Cowles showed herself thoroughly at home among the aristocratic goings-on of turn-of-century England and Europe. Now, moving back in time to the last of the Stuart monarchs and the first of the Hanoverian, she presents in all its liveliness that era when chicanery and corruption reached their finest flowering.

"The Great Swindle" of this fascinating book originated two hundred and fifty years ago, when the Chancellor of the Exchequer pushed through Parliament a bill setting up the "Company of Merchants of Great Britain trading to the South Seas and other parts of America." This nefarious scheme (the invention of Daniel "Crusoe" Defoe) was primarily intended to take care of the national debt: the private creditors to whom the Government owed £10,000,000 were to accept shares in the Company as payment, and the Government would then have to find only enough money to pay them interest.

But there was no trading with South America. And even though King George I became Governor of the Company, and his mistress one of its most substantial investors, the project floundered for some half-a-dozen years.

Then, from across the Channel the wind rose that floated the South Sea Bubble to dizzying heights. There, a bizarre Scot named John Law had hypnotized the bankrupt and debauched French court into creating a vast monopoly for developing the Mississippi valley, and had sold the public shares to the tune of £300,000,000. Inspired by John Law, the South Sea Company offered shares to the English public, requiring only a small down payment. England went mad. Aristocrats, country gentry, intellectuals, servants joined in the orgy of speculation. The Company lent money to keep people buying stock. Everyone had millions in his grasp. And then, on September 28, 1721, ten years after Defoe's "Company of Merchants" had been created, the South Sea Bubble burst, and thousands upon thousands faced the fact of ruin.

Miss Cowles is at her reportorial best in telling the story of this fantastic epidemic against the background of the times.

Harper $3.95